STATE OF ARIZONA

Joint Legislative Budget Committee

STATE SENATE

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HOUSE OF REPRESENTATIVES

JOINT LEGISLATIVE BUDGET COMMITTEE
Thursday, October 19, 2000
1:30 p.m.
Senate Appropriations Room 109

AGENDA

- Call to Order

- Approval of Minutes of September 14, 2000.

- EXECUTIVE SESSION - Arizona Department of Administration, Risk Management Services - Consideration of Proposed Settlements under Rule 14.

- DIRECTOR'S REPORT (if necessary).

1. DEPARTMENT OF HEALTH SERVICES
   A. Review of Capitation Rate Changes.
   B. Review of Plan to Distribute $50M for SMI Services and $20M for Children's Behavioral Health Services of Tobacco Settlement Monies.

2. STATE PARKS BOARD - Review Intended Use of Reservation Surcharge Monies.

3. DEPARTMENT OF CORRECTIONS - Reconsider Review of Private Prison Request for Proposals.

4. JOINT LEGISLATIVE BUDGET COMMITTEE - Consider Approval of Year 2001-2002 Strategic Program Area Review Candidates.

5. SCHOOL FACILITIES BOARD - Report on Deficiencies Corrections and Computer Purchases.

6. DEPARTMENT OF ECONOMIC SECURITY
   A. Report on Case Management Satisfaction Survey.
   B. Report on Annual Child Care Expenditures.
   C. Bimonthly Report on Arizona Works.
   D. Report on Domestic Violence Baseline Cost-Effectiveness.

7. OFFICE OF THE ATTORNEY GENERAL - Report of Plan to Spend Portion of Interagency Service Agreements Appropriation.

8. ARIZONA DEPARTMENT OF TRANSPORTATION - Reports on Ports of Entry.

9. AHCCCS - Report on Capitation Rate Changes.

The Chairman reserves the right to set the order of the agenda.
10/12/00

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Joint Legislative Budget Committee

STATE SENATE	1716 WEST ADAMS PHOENIX, ARIZONA 85007	HOUSE OF REPRESENTATIVES
RANDALL GNANT CHAIRMAN 2000 GUS ARZBERGER RUSSELL W. "RUSTY" BOWERS SCOTT BUNDGAARD EDWARD J. CIRILLO JACK C. JACKSON JOE EDDIE LOPEZ JOHN WETTAW	PHONE (602) 542-5491 FAX (602) 542-1616 http://www.azleg.state.az.us/jlbc.htm	BOB BURNS CHAIRMAN 1999 BARBARA BLEWSTER LORI S. DANIELS SALLY ANN GONZALES BILL MCGIBBON JEAN HOUGH MCGRATH BOB MCLENDON CHRISTINE WEASON

MINUTES OF THE MEETING

JOINT LEGISLATIVE BUDGET COMMITTEE

September 14, 2000

The Chairman called the meeting to order at 1:35 p.m., Thursday, September 14, 2000, in Senate Appropriations Room 109. The following were present:

Members:	Senator Gnant, Chairman	Representative Burns, Vice-Chairman
	Senator Arzberger	Representative Blewster
	Senator Bowers	Representative Gonzales
	Senator Bundgaard	Representative McGrath
	Senator Cirillo	Representative McLendon
	Senator Jackson	Representative Weason
	Senator Lopez	
	Senator Wettaw	
Absent:		Representative Daniels
		Representative McGibbon
Staff:	Richard Stavneak, Director	Cheryl Kestner, Secretary
	Patrick Fearon	Steve Grunig
	Gina Guarascio	Bob Hull
	Rebecca Hecksel	Beth Kohler
	Indya Kincannon	Pat Mah
	Lorenzo Martinez	Paul Shannon
	Tom Mikesell	Lynne Smith
	Stefan Shepherd	Jennifer Vermeer
Others:	Dr. Philip E. Geiger	School Facilities Board

APPROVAL OF MINUTES

Hearing no objections from the members of the Committee to the minutes of August 10, 2000, Senator Gnant stated that the minutes would be approved as submitted.

SCHOOL FACILITIES BOARD (SFB) - Consider Approval of Index for Constructing New School Facilities and Report on Status of Deficiencies Corrections Assessment.

Mr. Richard Stavneak, Director, JLBC Staff, stated that the JLBC Staff recommended that the Committee approve the request. He also mentioned that Dr. Geiger, Director of the School Facilities Board, was available to answer any questions that the Committee may have regarding the on-going process of the school assessment.

Senator Gnant asked if they were any questions regarding this specific item on the agenda.

Representative Burns moved the that the Committee approve the JLBC Staff recommendation to approve the use of the Marshall Valuation Service index for July 2000 for adjusting the cost per square foot for new school construction. The motion carried.

Senator Cirillo asked if there is any procedure in place to review the actual standards since several schools have been built.

Dr. Philip E. Geiger, Director, School Facilities Board, stated that that is one of the items they are going to address. There are a number of agenda items for their retreat which will be held in Bullhead City on October 6, 2000. He indicated that he would forward copies of that agenda to the Committee. Dr. Geiger said that until the end of this year they are exempt from the rule making process, which makes it easier to change the guidelines. They will be having a hearing in Holbrook, September 30, to discuss that particular provision on the remoteness of districts. They will probably come back again and ask for an extension of their exemption to complete some of those changes that need to be made.

Representative Weason asked if the Legislature had fully funded for inflation, would the SFB be making this request. Dr. Geiger said that he suspected not. The intention is to maintain the original cost at today's current prices so that this is an inflationary increase based on the construction industry.

Representative Weason asked if FlexTech had been involved in any of the evaluations or assisted in finding any of the information that the SFB needs. Dr. Geiger said yes, and he had a report that had been submitted to the Committee (Attachment 1) which describes FlexTech's participation. FlexTech is now housed in the SFB's office at 1700 W. Washington and they are working closely with them. There have now been 52 reports completed on the school districts. They will have their first awards in October and will complete those by the end of the year. FlexTech people will be off the job sometime in December.

Representative Weason asked when the deficiencies corrections assessment will be completed and what progress has been made. Dr. Geiger stated that at the December Board meeting it is expected to be completed. There are 228 school districts and by October approximately 60 of those school districts will be completed. Another 60-70 will be finished in November and the final ones in December.

Senator Gnant noted that in the interest of full and open disclosure it would have been difficult for the Legislature to fully fund capital until the passage of Students First. It was simply a local responsibility.

Representative Blewster asked about the meeting being held in Bullhead City. Dr. Geiger said that there will be a board meeting in Kingman October 5. On October 6 they are having an open public forum with about 30 items on the board retreat agenda. Representative Blewster asked, of the 228 school districts, how many are actually functioning school districts. Dr. Geiger said that a little over 200 are functioning school districts that they will be assessing.

Representative McLendon asked if it was correct that they are not going to ask for a supplemental appropriation in 2001, but have plans to do so in 2002. Dr. Geiger stated that was correct. Representative McLendon asked Dr. Geiger to clarify how that is going to work, and whether Dr. Geiger was comfortable waiting until 2002. Dr. Geiger said that the laws are unique in that regard but the SFB has the opportunity to go to the Treasurer to transfer funds without legislative appropriation. They have attempted to be prudent and conservative in requesting funds but assured the Committee the districts are being properly served and the laws are being fulfilled. They have indicated on the issue of new schools, for example, that they will probably need additional funding.

Senator Wettaw asked if JLBC Staff has a list of districts that are asking for deficiency funding money to be compared with how much money that has been transferred from capital to maintenance and operation monies (M&O). Dr. Geiger stated that they did not have a list like that, however, they could provide a list of projects that have been approved by the SFB. However, it does not have a correlation to any transfer of funds at the school district level. Senator Wettaw said that would be something the Committee would be interested in, in the future.

Senator Bowers asked the Chairman how the Committee could find out how much has been transferred from capital to M&O in the last 6 years. Senator Wettaw suggested some of that information could come from the Department of Education. Senator Gnant said he and JLBC Staff will work to come up with something at the next meeting.

Senator Lopez said that there is a provision in Students First that allows school districts to bond beyond standards that have been set. Senator Lopez said that rich school districts are going to be able to bond and still build more elaborate facilities leading to disparity. Dr. Geiger said that is an excellent issue and one that they grapple with regularly. The reality is, Students First ultimately was to provide the necessary elements for a proper educational environment. If a school district chooses to provide what the Students First provides they will have a fully functional school and a satisfactory building with all the necessary accouterments to make it a safe, secure proper educational facility. Senator Lopez said that in the final analysis the tax dollars are sufficient to provide a proper educational environment and that should be enough for all school districts. Allowing school districts to bond beyond is a local decision but it is still tax dollars.

Senator Wettaw asked if there was a list available of schools districts that do not believe the standards are adequate. Dr. Geiger said he could give the Committee a list of districts that have enhanced their purchases or their schools, but no one has complained that the state has not adequately funded their school. Senator Gnant asked Dr. Geiger to provide that to JLBC Staff.

Dr. Geiger referenced a memo that was distributed by a legislator regarding a $10 million projected savings in their purchasing of computers for the school districts. Dr. Geiger handed out a memo (Attachment 2) which showed 3 ways a school district can purchase in the state.

Senator Bowers said that in the absence of that legislator it would be best to table the issue until both the member and Dr. Geiger were available to present their views. Senator Gnant said that this would be placed on the next agenda.

ARIZONA DEPARTMENT OF ADMINISTRATION (ADOA) - Review of Proposed FY 2001 Classification Maintenance Review (CMR) Adjustments.

Mr. Stavneak stated that an additional memo was distributed to Committee members regarding this issue. At the time the agenda book was sent out there was insufficient information to make a recommendation. However, the JLBC Staff ultimately recommended a favorable review of this item. The CMR adjustments covers about 24 job categories in the amount of about $9.7 million. ADOA is not sure at this point how much the classifications cost because some of the positions do not have a funding source with them. If ADOA discovers they have exceeded their General Fund allocation, it was suggested they come back to the Committee and explain how they are going to solve that problem. Mr. Stavneak noted that the Committee should not view these as the most critical salary needs in state government. For example, when you look at issues like correctional service officers, you probably have a larger problem there in terms of retaining people in those facilities. It would take up most of the money if you attempted to address that issue out of this pot of money.

Senator Cirillo commented that you can not look at CMR recommendations out of context. For instance, Mr. Stavneak mentioned DOC, and you have to look at what has been done for them in the last couple of years. We have had a significant change in the DOC pay package. That took up most of the money from the other state agencies 2 years ago. As you look at who get these adjustments you have to understand who got a large chunk of money recently.

Representative Weason had a procedural question regarding the CMR adjustments requiring Committee review. The JLBC Staff memos often say review or approve. She asked whether the Committee has the authority to approve or does the Committee just review and can not modify or change the recommendation. Mr. Stavneak stated that there are cases in statute where it actually says to approve something. For example, in the previous item on the SFB's index, it shows that the Committee should identify, which the JLBC Staff has taken to mean to approve. In other cases the statute says review, which means to give the best advice or guidance to an agency. That is what we are dealing with in this circumstance. ADOA does not actually present the job classifications to JLBC Staff at the time they make the request for the dollars. The thought was that they will tell us what the dollars are, find the classifications, and then come back and inform the Committee what those are before they are implemented. Then if there is serious enough concern, it can be conveyed to ADOA, however, there is no binding requirement that ADOA accept the Committee's actions.

Because JLBC Staff is recommending a favorable review, Senator Lopez wanted clarification on whether ADOA would now be able to implement the CMR adjustments without any further review. Mr. Stavneak said that would be correct. These items are scheduled to go into effect January 1. Senator Lopez stated that in the context of needs throughout the state he is not so sure that he would not choose other priorities, and would like to be able to make those choices with whatever money is available. He asked if this is a pot of money that was already approved or is it a part of a big pay package that will have to be determined. Mr. Stavneak said that it is part of monies that have already been approved. Mr. Stavneak said that is a legitimate concern, because we decide to give them a dollar amount without knowing what specific classifications they are going to fund out of it. An alternative that the Committee can consider in the upcoming budget process, with any new CMRs, is whether or not the Committee wants to be more specific on the categories that should receive the adjustments. If the Committee wants more input it would need to be done beforehand as opposed to later.

Senator Cirillo wanted to add that the agency was not only given dollars but also criteria. What they have done to the best of their ability is give the Committee a list using specific criteria. Mr. Stavneak agreed with that but there is some discussion with regard to what is the greatest problem.

Representative McLendon asked what happens if the agency has criteria and that criteria is not followed. He noted that we do have a budget process, and footnotes, and have the authority, as a Legislature, to make sure those things are addressed in the future. Mr. Stavneak said if there is something on this list that the Legislature did not like, he was not sure there was the ability to correct that problem unless you go into the next budget and somehow take away salary adjustments that someone has already received. Representative McLendon said that in the future then if a certain agency has not followed the criteria for the CMR adjustments as the Committee requested then the Legislature does have something they can do about it. Mr. Stavneak agreed with that.

<u>Representative Burns moved</u> *the Committee give a favorable review as recommended by JLBC Staff to the Department of Administration's proposed FY 2001 CMR adjustments. If the adjustments end up exceeding the appropriation level, ADOA is to return to the Committee with its proposal for revising the CMR adjustments to stay within the appropriated amounts.* The motion carried.

DEPARTMENT OF ENVIRONMENTAL QUALITY (ADEQ) - Review of Request for Proposals on the Vehicle Emissions Inspection Program Contract.

Mr. Chris Earnest, JLBC Staff, stated that in the addendum memo that was distributed to the Committee, it states that JLBC Staff has reviewed the RFP and is recommending a favorable review. The JLBC Staff is also recommending that ADEQ report back to the Committee with regards to cost information prior to the contract being finalized. In particular, the JLBC Staff has concerns with some of the enhanced provisions of the new contract as shown in the 4 bullets listed in the memo. While they are good provisions, they may carry incremental cost components and the JLBC Staff would like to have some information as to those costs for the Committee to better evaluate the RFP and contract.

Representative Burns said that when he discussed this issue earlier with Mr. Earnest he mentioned the change in the way the money would be collected as opposed at to how it is collected now. Right now it would be coming to the Department as opposed to the contractor and would be appropriated by the Legislature. He does not see a real problem with that other than it may cause some concern for the contractor. They may want to provide a little insurance for themselves because of that added uncertainty. When inspection prices go up the Legislature hears about it and it becomes a political "hot potato."

Mr. Earnest stated that all the monies will now be deposited into the Vehicle Emissions Inspection Fund, which is an appropriated fund. The Legislature will have to appropriate monies if there is a fee increase. The additional appropriation would then allow the contractor to receive the additional revenues from the fee increase.

Representative Burns said that if he were a contractor and there were some uncertainty he would want to make the price a little higher to cover himself. He felt the Committee should be aware of the ramifications of a fee increase.

Senator Bowers asked if we have done an analysis as to what the increased costs for the added responsibilities to the contractor are. Mr. Earnest said those provisions have been analyzed in the past, we have had those in statute, and will be included in this new contract. These types of things are what we are asking the agency to come back and report on. We have not done any analysis yet because there have not been any bids.

Senator Bowers asked if the Committee would then have an opportunity to vote to accept, or perhaps intercede, on the acceptance of a contract. Senator Gnant said the agency does not need the Committee's approval to go forward. Mr. Stavneak indicated that is correct. They simply submit it for review.

Representative Blewster asked if the contract has to be for 10 years or can it be for 2 to 5 years. Mr. Earnest said the statute that was passed this past session required the contract to be between 5 and 7 years. That is what has been done with this contract; 5 years with 2 optional years. They are then asked to submit price information for both the 5- and 7-year contract. ADEQ has the discretion to choose either the 5- or 7-year contract. Representative Blewster commented that she does not like to see the Legislature subsidizing these because the taxpayers need to know how much these programs are costing them.

Senator Bowers said when it was first required to have the enhanced testing procedures for the IM-147 in January, we noticed there was no change in wait times. Through the summer months there was gradually increased times spent testing the vehicles and we see a higher failure rate. He asked if the JLBC Staff could take a calendar and list the failure rate and the temperature by day and see if there is any correlation between sitting in hot weather and getting your car tested versus in cooler weather. Mr. Earnest said that the JLBC Staff could take a look at that.

Senator Lopez stated that he remembered reading in the paper that the RFP was sent to 3 contractors. Mr. Earnest said that when the RFP was first submitted to the JLBC Staff it was thought that it was proprietary information and would need to be brought forth into Executive Session. In discussing this, it was determined that 3 copies had been released to potential bidders, which raised some concerns. The JLBC Staff had conversations with the Attorney General's office as well as Legislative Council. They indicated that by releasing the draft RFP to JLBC, it essentially was a public document. Therefore, if potential bidders or other interested parties were to submit a public information request for the document they would be entitled to receive it. It is not the official RFP and no one else to our knowledge has asked for one.

Senator Lopez said there has been a tremendous amount of discussion about the cost of these tests and the effect it has on poor people. Legislation has been introduced to put limits on the cost of testing and he would like the actual cost to be determined before the Committee approves it. He is not sure the public is getting the benefits from the increased costs. Senator Gnant said that this item is for review only and the agency can go ahead with their plan.

Mr. Stavneak said that there is a point where the Legislature does insert itself in the process. It would be during the next appropriation cycle where the dollar level for the Emissions Inspection Fund is approved. This is more significant now than in the past because all the monies will now flow into the state. In making that appropriation you have to make an assumption as to how many people are going to come in and what the average cost per person, or fee, is going to be. If ADEQ ultimately accepts a contract that is at a much higher level than the Committee wants, and an appropriation is passed that is not sufficient, he is not sure what would happen at that point.

Senator Gnant said that it is likely that any contract that gets entered into is going to contemplate the likelihood of the Legislature choosing not to fund it, and will have some sort of assurances built into it. The best the Legislature can do is convey to the agency that a contract that may have the intent of obligating sufficient amounts of state money might not be something one or more legislators would approve of. If that causes any change to the contract they were warned that some substantial percentage of the body is not in favor of continued and perhaps increased subsidies.

Mr. Stavneak said that the JLBC Staff recommendation of having the agency report back on these cost components, was to provide that input to ADEQ once we actually have some real numbers to back up these provisions.

Representative Weason asked if the provision for performance contract and liquidated damages in this RFP is a requirement by the Feds. Mr. Earnest said that he believes ADEQ added this to ensure wait times and performance measures are enforced and carried out. Representative Weason said since we are adding the shift of burden to the contractor, they are obviously going to hike up their prices to compensate for these additional measures. Since the Legislature has oversight for these increased costs she feels it is a problem that needs to be resolved before they go any further. Also, she wondered with the Clean Air Act if they were to expand this testing from area A and B to statewide whether it would have any impact on this contract. Mr. Earnest said it could, however, there would have to be an amendment to the contract to expand it statewide.

<u>*Representative Burns moved*</u> *that the Committee give a favorable review as recommended by JLBC Staff to the Arizona Department of Environmental Quality's RFP to be used to hire the contractor to operate the vehicle emissions inspection program beginning January 2, 2002. The Committee requested that ADEQ report on the proposed contract's test fees to the Committee before finalizing the contract.* The motion carried.

OFFICE OF THE ATTORNEY GENERAL - Review Allocation of Settlement Monies (Nine West Group, Inc.)

There was no discussion on this item.

<u>*Representative Burns moved*</u> *that the Committee give a favorable review as recommended by JLBC Staff to the Attorney General's allocation plan for the funds received from the Nine West Group, Inc. settlement.* The motion carried.

JOINT LEGISLATIVE BUDGET COMMITTEE - Consider Approval of Year 2002 Strategic Program Area Review Candidates

Richard Stavneak stated that one of the new responsibilities of the Committee is to select the Strategic Program Area Reviews (SPARS). The JLBC Staff will be collecting information with agency input during 2001 and that the Legislature will consider them in 2002. Previously, a bill went through the Legislature that specified those programs. Now this

Committee has been given that authority. The JLBC Staff is not recommending that the Committee make any decisions with regards to those items at this point. As shown in the memo in the agenda book, the JLBC Staff has put together a list of some fairly broad, very crosscutting ideas. We have also shown what the Auditor General is going to do in the next couple of years. Mr. Stavneak commented that he thought it would be beneficial if the candidates were generated from the legislators.

Representative Weason asked whether an agency selected for a SPAR would conflict with an agency undergoing an Auditor General Performance Audit, such as DOC. Mr. Stavneak said in that case he felt it would be useful to have conversations with the Auditor General. In a Performance Audit with an agency the size of DOC, they are not going to cover every aspect of the DOC operation. In that instance it would be useful to find out what the Auditor General is going to do and then coordinate that with what a SPAR could cover. He said that there are enough issues within any large agency that you could do a Performance Audit and a SPAR, as long as they were not the same area.

Senator Lopez asked if the Committee is to choose a certain number from the list. Mr. Stavneak said that it is not indicated in statute and it does not provide guidance. Previously, there was a total of 3 SPARS, 1 per Appropriations Subcommittee. Mr. Stavneak said that the number probably depends on the size of the area. The larger the area chosen, with more crosscutting and involving more agencies, one may be sufficient.

Senator Lopez asked Mr. Stavneak how many should be chosen. Mr. Stavneak said that if you are going to do something very broad like the ones on the JLBC Staff list, 1 may be sufficient. One like prescription drugs will take quite a bit of time to delve into. If you do a much narrower area, 2 or 3 per subcommittee should be sufficient.

Senator Lopez asked how long it would take to do one on state-owned aircraft. Mr. Stavneak said that that would probably be in the smaller category.

Senator Lopez asked what will occur in putting the list together. Senator Gnant said that Mr. Stavneak will meet with each Committee member and get their ideas. He then will meet with Senator Gnant and finalize the list.

Senator Cirillo asked if they are limited to the agencies on the list. Mr. Stavneak said no, and that he would prefer that members generate the list of SPAR candidates.

NATUROPATHIC PHYSICIANS BOARD OF MEDICAL EXAMINERS - Report on Expenditures for Inspections.

There was no discussion on this item and no Committee action was required.

DEPARTMENT OF JUVENILE CORRECTIONS - Report on Education Technology Pilot Program Expansion.

There was no discussion on this item and no Committee action was required.

ARIZONA BOARD OF REGENTS - Report on University Faculty Teaching Loads.

There was no discussion on this item and no Committee action was required.

ARIZONA DEPARTMENT OF TRANSPORTATION

A. Report on Highway Maintenance Levels of Service.

There was no discussion on this item and no Committee action was required.

B. Report on Motor Vehicle Division - Special Projects.

There was no discussion on this item and no Committee action was required.

DEPARTMENT OF EMERGENCY AND MILITARY AFFAIRS - Report on Camp Navajo Fund.

There was no discussion on this item and no Committee action was required.

DEPARTMENT OF ECONOMIC SECURITY

A. Report on Long Term Care System Fund Fiscal Issues.

Mr. Stefan Shepherd, JLBC Staff, commented that the department is going to issue a Request for Proposal (RFP) in October; the deadline for responses is December, which means they will not have an analysis of the fiscal impact until February. DES would not be able to meet the November 1 deadline for a fiscal impact analysis because they will not have responses back from the providers. He said that the RFP would take effect July 1, 2001, but the costs that are generated by the new RFP are probably not going to be known in a timely fashion with regards to the FY 2002-2003 budget process.

B. Report Intended Use of Domestic Violence Shelter Fund.

There was no discussion on this item and no Committee action was required.

C. Report on the Electronic Benefits Transfer (EBT) Project.

There was no discussion on this item and no Committee action was required.

Without objection, the meeting adjourned at 2:40 p.m.

Respectfully submitted:

____
Cheryl Kestner, Secretary

____
Richard Stavneak, Director

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Senator Randall Gnant, Chairman

NOTE: A full tape recording of this meeting is available at the JLBC Staff Office, 1716 West Adams.

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HOUSE OF
REPRESENTATIVES

DATE: October 12, 2000

TO: Senator Randall Gnant, Chairman
Members, Joint Legislative Budget Committee

THRU: Richard Stavneak, Director

FROM: Gina Guarascio, Senior Fiscal Analyst

SUBJECT: DEPARTMENT OF HEALTH SERVICES - REVIEW OF CAPITATION RATE CHANGES

Request

Pursuant to a footnote in the General Appropriation Act, the Department of Health Services (DHS) must present an expenditure plan to the Committee for its review prior to implementing any change in capitation rates for the Title XIX behavioral health programs.

DHS has received approval from the Arizona Health Care Cost Containment System (AHCCCS) to change the capitation rates for the Children's Behavioral Health (CBH), Seriously Mentally Ill (SMI) and General Mental Health/Substance Abuse (GMH/SA) line items retroactive to October 1, 2000, and has submitted a plan showing the estimated cost of the rate changes for the Committee's review. DHS also received approval from AHCCCS to change the capitation rate for these same programs on December 1, 2000. The following table shows the budgeted, current and new capitation rates and JLBC Staff estimates for the General Fund (GF) cost impact by program based on the enrollment projections used in developing the FY 2001 appropriations:

Statewide Monthly Capitation Rates by Program

Program	FY 2001 Budgeted Rate	FY 2001 Current Rate	FY 2001 Oct. 1 Rate	FY 2001 Dec. 1 Rate	% Change 1/	FY 2001 GF Cost/(Savings)
CBH	$24.43	$24.15	$23.98	$24.04	(0.46)	$(177,900)
SMI	52.48	51.83	54.09	54.26	4.69	791,100
GMH/SA	13.33	13.36	13.78	13.88	3.89	257,200
TOTAL						**$ 870,400**

1/ Reflects change from current rate to December rate.

(Continued)

Recommendation

The JLBC Staff recommends a favorable review of the request, since the proposed capitation rate changes are based upon an actuarial study. In the prior regular session, we had set aside $9,835,200 from the General Fund for DHS enrollment and capitation changes. However, the capitation rate changes and higher than projected enrollment growth are likely to require a further increase in the General Fund supplemental beyond what was set aside in the FY 2001 budget.

In total, we currently project that the DHS supplemental requirement will exceed that amount by $4 million. Of that amount, $870,400 is related solely to the higher capitation rates. The JLBC Staff further recommends that DHS submit proper notification of a projected deficit as required by A.R.S. § 35-131D.

Analysis

Since Title XIX is a federal entitlement program and states are required to provide reimbursement rates that are actuarially sound, capitation rates are not set by the Legislature. DHS contracts with an actuarial firm, which uses claims and encounter data and projected enrollment to determine the actual costs of services and thereby recommends increases or decreases in the capitation rates. Once DHS requests a change in rates, the new rates must be approved by AHCCCS. AHCCCS generally consults with their own actuaries to evaluate DHS's requests.

As mentioned above, a footnote in the General Appropriation Act requires DHS to submit an expenditure plan to the Committee prior to implementing any change in capitation rates in the Title XIX behavioral health programs. In the past, capitation rate changes were implemented without notification of the Legislature. The footnote was added so that legislators would be made aware of these changes and the potential budget impacts before the new rates are implemented.

In June, JLBC favorably reviewed a capitation rate change for FY 2001 based on costs associated with renewed contracts with all Regional Behavioral Health Authorities (RBHAs) except Value Options, the Maricopa County RBHA. At that time, DHS anticipated further adjustment to the capitated rates. Value Options' rates were reviewed, and DHS has completed the actuarial process and has received AHCCCS's approval for new statewide rates retroactive to October 1, 2000. This rate change reflects costs associated with a new contract with Value Options, as well as costs associated with a recently approved AHCCCS waiver. DHS has also received approval to adjust a rural add-on rate, which will result in a change in the statewide rate, effective December 1, 2000.

Based on enrollment projections used in developing the FY 2001 appropriations, the capitation rate changes will create a savings of ($177,900) associated with the children's programs, an increase of $791,100 associated with the SMI program, and an increase of $257,200 for general mental health. These costs and savings are relative to the FY 2001 supplemental General Fund set-asides of $4,903,100 for the children's program, $3,499,000 for the SMI program, and $1,432,200 for General Mental Health. (The Legislature did not formally appropriate a FY 2001 supplemental to DHS, but set aside General Fund monies to cover their anticipated costs.)

Enrollment has been sharply exceeding projections for each of the three programs. Using data through September 1, 2000, JLBC Staff revised Title XIX population estimates to reflect the recent trend. The JLBC Staff estimates that the revised population projections, combined with the capitation rate changes, will result in a increased cost to the General Fund of $13,843,000, or $4,007,800 above the FY 2001 set-aside of $9,835,200.

Since the rates are based upon an actuarial calculation required by federal law, the JLBC Staff recommends that the Committee give the rates a favorable review.

RS:GG:ck

STATE OF ARIZONA

Joint Legislative Budget Committee

STATE SENATE

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DATE: October 12, 2000

TO: Senator Randall Gnant, Chairman
Members, Joint Legislative Budget Committee

THRU: Richard Stavneak, Director

FROM: Gina Guarascio, Senior Fiscal Analyst

SUBJECT: DEPARTMENT OF HEALTH SERVICES – REVIEW OF PLAN TO DISTRIBUTE $50 MILLION FOR SMI SERVICES AND $20 MILLION FOR CHILDREN'S BEHAVIORAL HEALTH SERVICES OF TOBACCO SETTLEMENT MONIES

Request

Laws 2000, Chapter 2, 5th Special Session, appropriated $50 million from the tobacco settlement to the Department of Health Services (DHS) to provide community housing, vocational rehabilitation, and other recovery support services for the seriously mentally ill (SMI). The law requires that before DHS spends these monies they must submit a plan, including performance measures, to the Joint Legislative Budget Committee (JLBC) for review. The law further appropriated $20 million from the tobacco settlement for Children's Behavioral Health Services. The law does not specify that JLBC must review a plan for this appropriation, and DHS has submitted a plan for information only.

Recommendation

JLBC Staff recommends a favorable review of the SMI plan. As we did not receive the complete plan until October 10, the Staff has not had time to analyze the plan in depth. If we have further comments, we will send an additional memo by October 17, 2000. The plan appears to be generally consistent with the intent of Chapter 2, and the performance measures identified are specific and outcome based. A substantial portion of this one-time appropriation will be used to provide intensive recovery and support services for the seriously mentally ill to help move them to a higher level of functionality. DHS believes that the need for intensive services for these particular individuals will be reduced over time. If this approach is not successful in a timely fashion, the state may need to consider whether to provide on-going funding for these programs.

If the voters approve either of the propositions allocating the tobacco settlement, these monies would not be available for this purpose on an on-going basis.

The Children's plan is submitted for information only; no committee action is required. JLBC Staff has yet to receive Regional Behavioral Health Authority (RBHA) plans detailing expenditures for the Children's appropriation. While Chapter 2 clearly states that funding for the SMI program is intended for one-time purposes, the Children's $20 million appropriation does not reference a one-time funding requirement. We understand from discussions with other legislative staff, however, that the appropriation for Children's programs was intended to be one-time funding. Depending upon the approach taken by the RBHAs, an on-going need for funding could exist. If DHS and the RBHAs choose to tie the additional dollars to a cohort of children, rather than expanding services for all children in its target group, one-time funding could be sufficient.

JLBC Staff further recommends that DHS provide a report to the Committee in December with more specific information regarding the number of housing units that will be built or purchased, as well as the number of people that will be served by each program providing specialized recovery support and vocational rehabilitation services. As described below, we currently have broad information regarding the proposals broad dollar allocations, but we lack important details.

Analysis

Seriously Mentally Ill Services Plan

Laws 2000, Chapter 2, 5th Special Session created the Serious Mental Illness Service Fund and appropriated $50 million from the tobacco settlement for programs designed to serve adults with serious mental illness and assist them to achieve their highest possible level of self-sufficiency. The legislation further specified that the monies were to be used for the development of programs and services that are of a one-time nature, but that DHS may implement over several years. Finally, the legislation requires that $300,000 be used for a performance evaluation by the Office of the Auditor General to measure the effectiveness of the program.

DHS required each RBHA it contracts with to submit a plan that would meet the requirements of the legislation and most effectively utilize the monies within each RBHA. Funding will be allocated to each RBHA based upon population. DHS requires that programs be operational by July 1, 2001 and must remain in operation through June 30, 2003. DHS specified that a RBHA may use the funds to purchase housing stock or create a rental subsidy program to increase housing stock. Plans for housing purchase, ownership or construction by the RBHA or its subcontractor must be sustained for at least 15 years without additional funding.

DHS has received and approved expenditure plans from all RBHAs. In total, DHS estimates that $16,975,700 will be spent on housing programs, $26,609,000 will be spent on recovery support and vocational rehabilitation services, $1,316,300 will be spent on specialized assessment, $940,700 will be spent on training, and $3,858,300 will be used for administration or as "profit" by the RBHAs. DHS generally allows each RBHA 8% of a total contract for administration costs and an additional 4% for "profit". In this context, "profit" represents the excess of state reimbursement over actual operating costs. Profits are generally available for reinvestment in RBHA programs. In addition, $300,000 will be transferred to the Office of the Auditor General for a performance evaluation of the program.

Each RBHA will collect and submit baseline control data for the SMI clients enrolled on July 1, 2000. Based on that data, DHS will establish performance targets for housing, recovery support services, and the other program components. Each RBHA will then submit data on improvements in symptoms, health status, functioning, housing, employment, and health and recovery status to DHS semi-annually. DHS will also collect data regarding average cost per client stratified by diagnosis from each RBHA. Table 1 summarizes each of the programs identified in the legislation, the evaluation and performance measures for each program, as well as selected RBHA projects to meet each program goal.

Performance measures for the SMI program are outcome based and specific. DHS has met with the Auditor General regarding the evaluation component and the Auditor General is satisfied that the performance measures established for each program and the data required from each RBHA will allow for a through review of each program's performance.

Chapter 2 clearly states that these funds are for the development of programs that are of a one-time nature and that the program terminates on January 1, 2005. DHS's approach to complying with this requirement has been twofold. First, most of the $17.0 million proposed for housing will be used to purchase properties outright that will be reserved, by deed restriction, for the seriously mentally ill for at least the next fifteen years. Second, intensive services will be provided based upon a recovery model with the idea that those that are most severely mentally ill, while they will likely continue to require on-going behavioral health services, they can achieve a greater level of self-sufficiency and increased functioning within the timeframe of the funding. Therefore, the need for the intensive and expensive services funded by the legislation will be reduced. If this approach does not prove successful in a timely fashion, the state may need to consider whether to provide on-going funding for these programs. If the voters approve either of the propositions allocating tobacco settlement monies, these monies would not be available for this purpose on an on-going basis.

<u>Children's Services Plan</u>

Chapter 2 also appropriated $20,000,000 for Children's Behavioral Health Services. This legislation does not require JLBC review of the plan or its performance measures. Chapter 2 requires that monies be used to provide behavioral health services to families whose children receive behavioral health services through DHS, the Department of Economic Security (DES), the Department of Juvenile Corrections (DJC), and the Administrative Office of the Courts (AOC). Funds may also be used for telemedicine programs. An additional $150,000 will be transferred to the Office of the Auditor General to be used for a performance evaluation to measure the effectiveness of the program.

DHS again required each RBHA it contracts with to submit a plan that would meet the requirements of the legislation and most effectively utilize the monies within each RBHA. Funding will be allocated to each RBHA based upon population. DHS requires that programs be operational by July 1, 2001, and must remain in operation through June 30, 2003. DHS has not yet received or approved RBHA plans for the Children's programs. DHS further required that 30% of the funds available in each RBHA be used for children involved in the juvenile justice system. DHS will reserve $2 million for development and delivery of a uniform statewide training program.

Baseline data will be collected for both the Children's groups identified above, as well as a control group. From the baseline data, DHS will select targets for each program. The evaluation is designed to measure improvements in symptoms, functioning, system efficiency, and family satisfaction. Service costs and any barriers to implementation will also be addressed in the evaluation. Performance measures are outcome based and specific. DHS has met with the Auditor General regarding the evaluation component, and the Auditor General is satisfied that the performance measures established and the data required from each RBHA will allow for a through review of the program's performance. Specifically, the following outcome measures have been identified:

- Improvement of symptoms.
- Improvement of school performance.
- Improvement of social functioning.
- Decrease in family burden.
- Improvement in Family Living Environment.
- Decrease in restrictiveness of child residential setting.
- Improvement in number of arrests.
- Number of single case plans completed for multi-agency kids.
- Number of non-Title XIX Adult family members served.
- Decrease in substance abuse.

While Chapter 2 is clear that funding for the SMI program is intended for one-time purposes, the Children's appropriation does not reference a one-time funding requirement. However, it is our understanding that the appropriation was intended to be one time. As of the date of this memo, DHS has not received proposals for implementation of the Children's program from the RBHAs. Proposals are due to DHS on October 16, 2000. Without this information, it is difficult to determine whether the RBHAs' plans will involve one-time expenditures or whether they will create an on-going obligation for the General Fund. If DHS and the RBHAs choose to tie the additional dollars to a cohort of children rather than expanding services for all children in its target group, one-time funding could be sufficient. Thus, depending upon the approach taken by the RBHAs, an on-going need for funding could exist.

RS:GG:ck

Table 1

SMI Programs Projects and Measures		
Program Description	**Evaluation & Performance Measures**	**Selected RBHA projects**
Housing	--Improvement in physical and mental health status stratified by diagnosis and substance abuse status. --Number of homeless persons, people in jail, in ASH, in 24 hour residential, and semi-independent living moved to: independent living, semi-independent living and 24 hour residential.	--Acquisition or purchase of single family homes. --Acquisition or purchase of small and large apartment complexes. --Assistance with security and utility deposits. --Acquisition or purchase of a supervised living facility. --Maintenance of housing stock.
Recovery Support Services and Vocational Rehabilitation Includes community, social and peer support, independent living skills training, symptom and relapse self-management, and assessment, training, and on-going support related to a client's ability to get and keep a job, and/or pursue higher education.	--Improvement in physical and mental health status stratified by diagnosis and substance abuse status. --Improvement of symptoms stratified by diagnosis and substance abuse status. --Number of unemployed persons, who are become employed full time, part time, who participate in supported employment, or who volunteer., stratified by diagnosis.	--In-home stabilization teams to reduce hospital stays and reduce inappropriate hospitalization. --Purchase of land to provide urgent care and substance abuse services in the East Valley. --Adult Foster Care. --Development and expansion of clinical treatment teams. --Purchase of vans to transport clients to and from services. --Assistance with locating and maintaining employment. --Job coaching at individual worksites. --Expansion of social rehabilitation programs. --Expansion of telemedicine programs.
Specialized Assessment One time intensive diagnostic and treatment protocol. May identify previously undetected by readily treatable psychiatric, neurological and/or medical illnesses that have interfered with diagnosis and treatment.	--Number of persons for whom specialized assessments are conducted. --Documentation of diagnosis immediately prior to assessment --Change in diagnosis based on assessment. --Change in treatment regimen based on assessment.	--Value Options is the only RBHA who will perform specialized assessments. -- Value Options estimates that 12 consumers a year for 2 years or nearly 300 consumers will receive a specialized assessment.
Training	Evaluation component does not yet include evaluation of training.	--Training of clinical staff in recovery based model.
Administration		--Total profit and administration is limited to 8% for each RBHA.

Joint Legislative Budget Committee

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DATE: October 12, 2000

TO: Senator Randall Gnant, Chairman
Members, Joint Legislative Budget Committee

THRU: Richard Stavneak, Director

FROM: Chris Earnest, Senior Fiscal Analyst

SUBJECT: STATE PARKS BOARD - REVIEW INTENDED USE OF RESERVATION SURCHARGE MONIES

Request

Pursuant to a General Appropriations Act footnote, the Arizona State Parks Board requests that the Committee review its expenditure plan for additional FY 2001 Reservation Surcharge Fund revenues of $50,000.

Recommendation

The JLBC Staff recommends the Committee give a favorable review of the request. Parks Staff intend to expend the additional $50,000 on 2 FTE Positions that will take reservations over the phone, thus reducing caller wait times.

Analysis

A.R.S. § 41-511.24 established the Reservation Surcharge Fund for the purpose of planning and administering an automated reservation system for park visitors. Subject to appropriation, the fund may be used for staff and system operating costs. Monies in the fund are non-lapsing except that any amount over $12,500 at the end of each fiscal year is to revert to the General Fund.

(Continued)

The Reservation Surcharge Fund became active when an automated reservation system was implemented last year for tours at Kartchner Caverns State Park. Revenues are derived from a $2.00 per ticket surcharge on tickets purchased using the system. Based on FY 2000 revenues of $263,000, Parks Staff estimate surcharge revenues to be $250,000 in FY 2001. The fund's FY 2001 appropriation, however, is currently only $200,000. A General Appropriations Act footnote, does allow Parks Staff to expend the additional revenue after it is reviewed by the Committee.

Parks Staff propose using the additional revenue to fund 2 FTE Positions. The positions will provide customer service over the phone and schedule reservations. These positions are intended to reduce the time that callers are on hold, which at points has reached 1 hour. The expenditure detail of the additional $50,000 is listed below:

	FY 2001
FTE Positions	2.0
Personal Services	$41,800
ERE	8,200
Total Expenditures	$50,000

With the additional positions, a total of 6 FTE Positions will be funded from Reservation Surcharge Fund revenue in FY 2001. Four of the positions will answer telephones and establish reservations, one will maintain the computer system, and one will manage the unit and account for funds received. Fund revenue will also be used for software maintenance, phone and network charges, as well as ticket printing and postage. The proposed FY 2001 total expenditure amounts are delineated below:

	FY 2001
FTE Positions	6.0
Personal Services	$128,900
ERE	23,200
All Other Operating Expenditures	88,900
Total Expenditures	$250,000

The JLBC Staff recommends a favorable review to the intended use of the additional FY 2001 revenue.

RS:CE:ss

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DATE: October 12, 2000

TO: Senator Randall Gnant, Chairman
Members, Joint Legislative Budget Committee

THRU: Richard Stavneak, Director

FROM: Brad Regens, Senior Fiscal Analyst

SUBJECT: DEPARTMENT OF CORRECTIONS - RECONSIDER REVIEW OF PRIVATE PRISON REQUEST FOR PROPOSALS

Request

At its meeting held on August 10, 2000, the Committee gave a favorable review of an Arizona Department of Corrections (ADC) Request for Proposals (RFP) for a 1,000 bed privately-operated facility to house non-U.S. National inmates. Senator Lopez has requested that the Committee revisit the RFP in light of an opinion by Legislative Council on the legality of the RFP.

Background

The 1999 General Appropriation Act appropriated General Fund monies to ADC to contract for a 1,000-bed privately-operated prison facility. The appropriation also contained a footnote requiring that "the State Department of Corrections shall submit its plan for the category of beds to be privatized to the Joint Legislative Budget Committee for review and the beds shall not be segregated by race, ethnicity or nationality." The RFP reviewed by the Committee at the August meeting was entitled "Criminal Aliens Subject to United States Immigration and Naturalization Services Hearings and/or Deportation."

ADC believes that a privately-operated prison to house non-U.S. National inmates complies with the footnote by segregating all types of foreign national inmates instead of foreign nationals from one specific country (Mexico). At its meeting held on August 10, the Committee gave a favorable review of the RFP for a 1,000 bed privately-operated facility to house non-U.S. National inmates.

Subsequent to that review, Senator Rios requested a formal opinion from Legislative Council regarding whether the RFP violated state law by disregarding the footnote. Legislative Council concluded that "DOC's proposed segregation of prison beds according to alienage status violates both the footnote and the Constitution's equal protection guarantee." The entire Legislative Council opinion is attached.

Given Legislative Council's opinion, Senator Lopez has requested that the Committee revisit the issue.

RS/BR:ck

STATE OF ARIZONA

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DATE: October 12, 2000

TO: Senator Randall Gnant, Chairman
Members, Joint Legislative Budget Committee

THRU: Richard Stavneak, Director

FROM: Stefan Shepherd, Senior Fiscal Analyst

SUBJECT: JOINT LEGISLATIVE BUDGET COMMITTEE - CONSIDER APPROVAL OF YEAR 2001-2002 STRATEGIC PROGRAM AREA REVIEW CANDIDATES

Request

The Joint Legislative Budget Committee (JLBC) Staff requests that the Committee approve the list of program areas to be reviewed in the Year 2001-2002 Strategic Program Area Review (SPAR) process.

Recommendation

JLBC Staff recommends the Committee select no less than 3 SPAR programs from the attached list of recommended candidates. The 4 programs that generated the most interest from legislators, along with their relevant agencies, were:

- Job Training: Department of Economic Security (DES), Arizona Department of Education (ADE), Department of Commerce, and State Board for Community Colleges
- County Assistance: Arizona Health Care Cost Containment System (AHCCCS), Department of Health Services (DHS), Judiciary, Arizona Criminal Justice Commission (ACJC), Department of Water Resources (DWR), and Revenue Sharing
- Prescription Drugs: Arizona Pioneers' Home, Department of Veterans' Services, University of Arizona Medical School, DHS (including Arizona State Hospital), Department of Juvenile Corrections (DJC), Department of Corrections, AHCCCS, and DES.
- Aircraft Operations: Arizona Department of Transportation (ADOT), Department of Public Safety (DPS), and Game and Fish Department.

Analysis

SPAR Process
A.R.S. § 41-1275 provides that the JLBC shall determine which program areas will be subject to each biennial SPAR process. (In prior years, the programs were named in a bill.) The JLBC Staff, in consultation with the Governor's Office of Strategic Planning and Budgeting (OSPB), shall recommend a

list of program areas for the SPAR process to the JLBC by January 1 of each odd-numbered year. The statute also provides that state agencies may submit SPAR candidates. The attached list of program area suggestions (Attachments A and B) reflect these recommendations and were presented to the Committee at its September 19, 2000 meeting for initial review.

Once the Committee chooses the SPARs, each agency involved with a program area shall complete a self-assessment by June 1, 2001. The self-assessment shall address the efficiency and effectiveness of each operation and whether current operations are consistent with legislative intent. By January 1, 2002, the JLBC Staff and OSPB shall evaluate the program areas and jointly produce a report of their findings and recommendations.

A.R.S. § 41-1275 provides that the Speaker of the House and President of the Senate shall assign all SPARs to the Appropriations Committees. The President and Speaker may additionally assign a SPAR to a standing committee. Per statute, the committees shall hold at least 1 public hearing to receive public input and develop recommendations to retain, eliminate, or modify funding and related statutory references.

Selection of SPAR Candidates

After the September Committee meeting, JLBC Staff continued to solicit suggestions from legislators. Based on discussions with legislators and legislative staff, we have added 2 possible topics to the "JLBC Staff" list (Attachment A):

- Children's Delivery System: DES, DHS, AHCCCS, ADE, DJC, and Judiciary.
- Advertising: Lottery, Tourism, DHS (Tobacco Tax, Teen Pregnancy Prevention), Department of Administration, and AHCCCS.

Suggestions from OSPB will be provided under separate cover.

In discussing the SPAR suggestions, the 4 programs that seemed to generate the most interest from legislators, along with their relevant agencies, were:

- Job Training: DES, ADE, Department of Commerce, and State Board for Community Colleges
- County Assistance: AHCCCS, DHS, Judiciary, ACJC, DWR, and Revenue Sharing
- Prescription Drugs: Arizona Pioneers' Home, Department of Veterans' Services, University of Arizona Medical School, DHS (including Arizona State Hospital), DJC, Department of Corrections, AHCCCS, and DES.
- Aircraft Operations: ADOT, DPS, and Game and Fish Department.

We would recommend that the Committee select at least 3 SPARs, which might allow each of the existing 3 Appropriations Subcommittee to focus on a SPAR. Some of the proposed SPARs are significantly more complex than others. We believe that of the 4 SPARs most commonly mentioned by legislators, the first 3 belong to that category of "significantly complex." We recommend that if the Committee selects one of these complex SPARs, that that particular SPAR be the only one selected for a particular subcommittee.

We also note that A.R.S. § 49-282H requires that Water Quality Assurance Revolving Fund (WQARF) operated by the Department of Environmental Quality undergo the "Program Authorization Review" process starting in the year 2002 and every five years thereafter. If the Committee decides not to select WQARF as a 2001-2002 SPAR candidate, the JLBC Staff recommends that legislation be introduced, either as a separate bill or as part of an Omnibus Reconciliation Bill (ORB) to delay this requirement.

Once the Committee has selected the Year 2001-2002 SPARs, JLBC Staff and OSPB will send out instructions to the agencies participating in the process. Agency self-assessments and responses to special questions raised by JLBC Staff and OSPB will be due to our offices by June 1, 2001.

Attachments
RS:SSh:cb

Possible 2001-2002 SPAR Topics
JLBC Staff

Agency	Program Area	Description of Program
Land Dept., State Mines & Mineral Resource, Dept. of Mines Inspector, Dept. of Geological Survey, Arizona	Dept. of Natural Resources	These agencies perform related functions. In some states these functions are centralized in one agency.
Economic Security, Dept. of Education, Dept. of Commerce, Dept. of Community Colleges, St. Board of	Job Training	All of these agencies provide some type of job training.
AHCCCS Health Services, Dept. of Courts Criminal Justice Commission, AZ Revenue Sharing Water Resources, Dept. of	County Assistance	State monies pass-through all of these agencies. SPAR could research whether it might be more efficient to consolidate the funding.
Pioneers' Home, AZ Veterans' Services, Dept. of U of A Medical School/Hospital Arizona State Hospital Juvenile Corrections, Dept. of Corrections, State Dept. of Health Services, Dept. of AHCCCS Economic Security, Dept. of	Prescription Drugs	All of these agencies purchase prescription drugs or contract with providers who purchase prescription drugs. Given the high cost of medication, the SPAR could examine implementing bulk purchasing or group discounts.
Commerce, Dept. of Environmental Quality, Dept. of	Greater AZ Development Authority/Water Infrastructure Finance Authority	The 2 agencies operate similar types of programs. The SPAR could research the effectiveness of this type of program.
Health Services, Dept. of Judiciary	Children's Behavioral Health	Both agencies contract for behavioral health services for, at times, similar populations.
Parks Board, Arizona State AZ State Museum in ABOR	Cultural Preservation	Both agencies perform cultural preservation. In some states this function is centralized.
Environmental Quality, Dept. of	Water Quality Assurance Revolving Fund (WQARF)	A.R.S. § 49-282H requires that the WQARF program undergo the PAR process at specified intervals, including 2002. PARs have subsequently been changed to SPARs.

Economic Security, Dept. of Health Services, Dept. of AHCCCS Education, Dept. of Juvenile Corrections, Dept. of Courts	Children's Delivery System	All of these agencies provide case management and other services to children. Because of size of issue SPAR could focus on one particular type of client (e.g., clients who are developmentally disabled, regardless of their other diagnoses.)
Lottery Commission, Arizona State Tourism, Dept. of AHCCCS Health Services, Dept. of Administration, Dept. of	Advertising	All of these agencies contract for significant amounts of advertising funds. The SPAR could examine if there are more cost-effective ways of conducting advertising.

2001-2002 SPAR Topics
Agency Nominations [1/]

Agency	Program Area	Description of Program
Administration, AZ Dept. of	Travel Reduction	Promotes a reduction in state employees' travel in single occupancy vehicles. There are also travel reduction requirements for the private sector and schools.
Suggested by the Auditor General	Investigators of Civil Enforcement	Numerous commissions and boards have complaint investigators. A SPAR could evaluate whether it would be more efficient to centralize the investigative role similar to the Office of Administrative Hearings.
Suggested by the Auditor General	Aircraft Operations	The Auditor General suggested reviewing the use of state aircraft and other aircraft programs at the Dept of Transportation, Dept. of Public Safety and the Game and Fish Dept.
Corporation Commission	Railroad Safety	Enforces railroad safety relating to track maintenance, equipment safety, and rail-highway crossings. This would be a single program/agency SPAR. Could also include ADOT with regard to rail-highway crossings.
	Corporations Division	Regulates public utilities and the securities industry, grants corporate status, and ensures safe railroads and gas pipelines. Could also include the Secretary of State's Business Services program, which is responsible for corporate filings and trademark registration.
Economic Security, Dept. of	Home & Community Based Services (DACS)	Provides home and community based services such as respite, housekeeping, and attendant care. Could also include home and community based services provided in AHCCCS and DHS.
	Coordinated Homeless Programs	Planning and coordination of community based organizations that provide services to assist the homeless. Could also include DHS behavioral health and housing programs provided by the Regional Behavioral Health Authorities and the Dept. of Commerce housing programs.
Game and Fish Dept., AZ	Game Management	Manages game-wildlife populations by regulating hunting and assessing habitats.
Regents, AZ Board	University Library Operations	Provides library services to the universities.

1/ Unless otherwise noted, each agency nominated its own programs.

Tax Appeals, State Board of	Appeals process	Provides a process for taxpayers to appeal decisions by the Department of Revenue (DOR) and the Office of Administrative Hearings (OAH). SPAR could also include DOR and OAH.
Transportation, Dept. of	MVD 3rd Party	This would be a single agency SPAR and might include comparing the efficiency of using 3rd Parties vs. doing the activity in-house.
	Highways Administration Traffic Operations	This would be a single agency SPAR and might include comparing the use of technology to relieve traffic congestion vs. building more roads.
Treasurer, State	Credit card usage	Bill passed during the 2000 legislative session allows agencies to accept credit cards. The State Treasurer suggested that a <u>2003-2004</u> SPAR could include the primary agencies that decide to take advantage of the new process.

Attachment C

Jane Dee Hull
Governor

GOVERNOR'S OFFICE OF
STRATEGIC PLANNING AND BUDGETING
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Thomas Betlach
Director

October 12, 2000

Mr. Richard Stavneak
Director
Joint Legislative Budget Committee
1716 W. Adams Street
Phoenix, Arizona 85007

Dear Mr. Stavneak:

Pursuant to A.R.S. 41-1275, the Governor's Office of Strategic Planning and Budgeting is forwarding the following recommendations to your office for the FY 2002 Strategic Program Area Review (SPAR) process. We have arrived at these recommendations as a result of reviewing agency nominations, internally reviewing program area possibilities, and considering your possible SPAR topics advanced at the September 14th JLBC meeting.

To summarize our recommendations, the strategic program areas of Prescription Drugs and the Water Quality Assurance Revolving Fund from the JLBC list of *Possible 2001-2002 SPAR Topics* and the Home and Community Based Services program within the Division of Developmental Disabilities of the Department of Economic Security appear to hold the most potential for productive evaluation. Further, the OSPB staff is including comments on the other JLBC-suggested program areas where, based on our opinion, the negatives either balance or outweigh the positives of a self-evaluation. These program areas include: Dept. of Natural Resources, Job Training, County Assistance, Greater AZ Development Authority/Water Infrastructure Finance Authority, Children's Behavioral Health, and Cultural Preservation. Detailed comments follow.

Potential SPAR Candidates

Agency: AZ Pioneers' Home, Dept. of Veterans' Services, U of A Medical School/Hospital, Dept. of Juvenile Corrections, Arizona Dept. of Corrections, Dept. of Health Services, AHCCCS, Dept. of Economic Security

Program Area: Prescription Drugs

Comments: All of these agencies purchase prescription drugs or contract with providers who purchase prescription drugs. Given the high cost of medication, the SPAR could examine implementing bulk purchasing or group discounts. Note: This was a JLBC possible SPAR topic.

There are currently three proposals circulating in Congress related to prescription drugs. A prescription drug SPAR would need to track the federal direction so that a state-recommended program is compatible with any federal program or Medicare reform. Several of the agencies targeted for the SPAR serve elderly clients, which is another reason why a wrap-around approach to a surrounding federal program may seem more appropriate.

It is important to note that if Prop 200 and Prop 204 pass, AHCCCS will be trying to bring up expansion programs during the same time they would be required to work on the SPAR. However, the special nature of this target SPAR may not become a significant drain on any of the agencies' resources. Until the formal procedures for this SPAR process are developed and agreed upon, it will not be possible to estimate agency resource requirements.

The scope of the above SPAR may be sufficiently large in nature that it would involve considerable staff resources to complete and, therefore, this SPAR could justifiably stand as a single SPAR for the upcoming year.

Agency: Dept. of Economic Security (DES), Division of Developmental Disabilities (DDD)

Program Area: Home & Community Based Services (HCBS)

Comments: The DDD/Long Term Care (LTC) HCBS program has experienced tremendous caseload growth over the last several years (i.e., 10% a year) and with a corresponding increase in expenditures of 5 to 7%. While the LTC program is a federal entitlement, the causes behind the increasing caseload growth have been difficult to identify. While this would constitute only a single program SPAR, the self-evaluation could focus on caseload growth reasons, thus helping the agency, OSPB, and JLBC better explain and forecast future funding requirements. Note: The agency recommended the Division of Aging & Community Services (DACS) HCBS program.

Agency: Dept. of Environmental Quality

Program Area: Water Quality Assurance Revolving Fund (WQARF)

Comments: This program was restructured in 1997 by the Legislature. It underwent a performance audit from the Auditor General's Office in 1999. They stated in late November of that year, *"It is too early to determine the full effect of the changes to Arizona's program."* After an additional two years of program performance, FY 2001 may be an appropriate year to now assess performance. In addition, A.R.S. 49-282H requires that the WQARF program fund undergo an evaluation once every five years, beginning in 2002. This A.R.S. citation is based on a statute reference (A.R.S. 35-114) that contained language pertaining to the PAR process. Note: This was a JLBC possible SPAR topic.

There are other program areas suggested by JLBC staff where the opportunity for return on the self-assessment may be met with varying degrees of success.

Second-Tier Candidates

Agency: State Land Dept., Dept. of Mines & Mineral Resource, Dept. of Mines Inspector, and Arizona Geological Survey

***Program Area*:** Dept. of Natural Resources

Comments: A study of the potential for consolidating the four departments into a single Department of Natural Resources could be a possibility, but the study's scope might benefit from being expanded. OSPB staff performed a quick check of nearby states and found that Utah, Colorado, and Minnesota are organized with one centralized agency. Conversely, New Mexico is organized similarly to Arizona. The centralized models in Utah and Colorado included agencies such as State Parks, Game and Fish, Water Resources, Geological Survey, Land, and Mine Inspector. A centralized department of this scope may be worth exploring.

The Department of Mines and Minerals is focused more on economic development as demonstrated by their mission statement: *"To promote the development of the mineral resources of the state through technical outreach and education. The purpose of this promotion is to encourage economic development in the mining and minerals development industry."* As such, other alternatives may be more appropriate.

As an historical note, this type of centralization has been proposed several times in recent years as part of budget recommendations from the budget offices and has been avidly opposed by Game and Fish upon each occasion.

Agency: Dept. of Economic Security, Dept. of Education (DOE), Dept. of Commerce, and St. Board of Community Colleges

***Program Area*:** Job Training

Comments: DES has the Workforce Investment Act (WIA) program and the Jobs program that purchase job training for their clients. These two programs have recently merged into the same administration and are currently working to find more ways to collaborate. The Rehabilitation Services Administration (RSA) purchases similar services, but for a population with special needs.

DOE and the Community Colleges provide training, some of which DES purchases, but not a substantial amount since the DES priority is to find a person a job, not have them spend two to four years in school. OSPB staff contact with DOE staff discovered a favorable reaction to a possible evaluation process. DOE staff believe that there has been a significant change in the federal funding mechanism related to WIA for the various job training programs, which could be utilized to ensure the job training arena is not fragmented or overlapping.

A Program Authorization Review (PAR) was conducted in 1997 of the Department of Education's School to Work program. At that time, *"…employers indicate that the skills of students who complete this program meet or exceed their expectations."* The School to Work PAR encompassed the Vocational Technological Education, Workforce Development Resource Unit, and Single Parents and Displaced Homemakers programs.

Commerce helps to fund job training related to a new or expanding business' workforce.

While these four entities have somewhat different roles in the area of job training, the coordination of training workers, whether it be in the provision of training by DOE or the Community College system or through the purchase of training by DES, to meet the needs of the emerging job market, as known by Commerce, should be the focal point of the SPAR process. After all, offering training or training low-income workers for jobs that do not exist, is not a fiscally sound practice. However, based on limited resources, this program area is not as high a priority as the others referenced above at this time.

Agency: AHCCCS, Dept. of Health Services, Courts, AZ Criminal Justice Commission, Revenue Sharing, and Dept. of Water Resources

***Program Area*:** County Assistance

Comments: Normally, consolidating funding is a good idea, if no subjective judgments or evaluations of the outcomes of the funding are required by the group allocating the grants or if the intent of the funding is not too widely divergent. However, this may not be the situation with the given group of agencies.

AHCCCS is unique in its relationship with the counties with regard to county assistance. County funds are used as an offset for the state match for the Acute and Long-Term Care programs. The monies are matched with Federal funds and disbursed to program contractors, who in some cases are the counties themselves.

Additionally, counties do receive AHCCCS-authorized assistance from the state through the Disproportionate Share Hospital (DSH) program, which is distributed based on very complex legal requirements. These funds provide supplementary payments to hospitals serving large numbers of low-income patients. Federal requirements limit the amount of time that can lapse between the time funds are drawn down and paid out. Centralization of these activities with an agency other than the AHCCCS may result in non-compliance with the federal statute.

The Department of Health Services funding addresses local, county health. ADHS has the specific expertise necessary to evaluate whether or not health needs are being met and whether the funds are being expended appropriately. If funds are blended, the value of this specialized oversight may be lost.

No funds from the Department of Revenue are distributed solely to counties. For instance, some sales tax dollars go to counties, but also to cities.

OSPB staff are uncertain as to the JLBC reasoning for the inclusion of the Department of Water Resources to this list.

Agency: Dept. of Commerce and Dept. of Water Resources

***Program Area*:** Greater AZ Development Authority (GADA)/Water Infrastructure Finance Authority (WIFA)

Comments: While GADA finances infrastructure projects, including water-related ones, and WIFA finances water-related infrastructure projects, the benefit of an assessment on each Board does not appear to justify any substantial return. In addition, WIFA is funded through the Department of Environmental Quality, not the Department of Water Resources.

Agency: Dept. of Health Services and Judiciary

***Program Area*:** Children's Behavioral Health

Comments: Children's Behavioral Health has been studied extensively for a number of years. Consideration of moving DES' Developmental Disability program to ADHS because of shared mental health components has been evaluated more than once. During the past couple of sessions, Rep. Knaperek has had numerous meetings as part of a proposal to consolidate various agencies, and CBH has been a significant part of these discussions. This past summer, policy advisors from the Governor's Office along with department representatives from DES, AHCCCS, and DHS formed a workgroup that has recently drafted recommendations on children's behavioral health issues for CPS kids. Throughout, the ADHS has dedicated significant resources to these studies, inquiries, and workgroups. These efforts in combination with their activities in responding to the JK lawsuit will tax the allocation of resources for a SPAR at this time.

Agency: Arizona State Parks Board and AZ State Museum in ABOR

***Program Area*:** Cultural Preservation

Comments: OSPB staff question any gains in efficiency from centralizing museum operations. However, if this program area receives serious consideration, it might be appropriate to include the Arizona and Prescott Historical Museums and the many historical groups that receive funding from the Arizona Historical Society.

Thank you for your attention to this recommendation.

Sincerely,

Thomas Betlach
Director

xc: Monica Klaschka
Rex Critchfield
Bill Greeney
Keith Fallstrom
Randy Hillier
Matt Gottheiner
Dawn Nazary
Marcel Benberou
Jeff Young
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STATE OF ARIZONA

Joint Legislative Budget Committee

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HOUSE OF
REPRESENTATIVES

DATE: October 12, 2000

TO: Senator Randall Gnant, Chairman
Members, Joint Legislative Budget Committee

THRU: Richard Stavneak, Director

FROM: Lynne Smith, Senior Fiscal Analyst

SUBJECT: SCHOOL FACILITIES BOARD - REPORT ON DEFICIENCIES CORRECTIONS AND COMPUTER PURCHASES

Request

Senator Gnant has invited both the School Facilities Board and Representative Galen Updike to appear before the Committee to provide an update on issues concerning the School Facilities Board. We have invited Representative Updike to discuss the board's process for school computer purchases. We have asked the board to address the following two issues: 1) the board's response to Representative Updike's concerns and 2) the status of the assessment process to evaluate school facility capital needs. This packet does not include any materials on the assessment update issue.

Recommendation

This item is for information only and no Committee action is required.

Background

Attached is a September 12, 2000 letter to all legislators from Representative Updike (Attachment 1). Also attached is a September 14, 2000 response from the Executive Director of the School Facilities Board (SFB) that was distributed at the last JLBC meeting (Attachment 2). The subject of these letters is the purchase of approximately 36,000 computers for K-12 school districts through the SFB Deficiencies Correction Process.

(Continued)

Representative Updike states that 1) a $10 million savings figure cited by the SFB is misleading and inaccurate because the SFB compared prices to state contract rather than to the lowest available market prices; 2) the state could have leveraged the computer purchases for better volume discounts; and 3) the SFB should have given districts an incentive to buy the lower-priced computers on state contract, rather than allowing vendors to offer add-ons which may induce districts to choose higher priced computers (up to $277 cost difference per computer). Attachment 1 provides a full explanation and tables to illustrate these concerns. The letter concludes that the state could have saved an additional $3 million to $10 million.

In its response letter to JLBC (Attachment 2), the SFB states that its $10 million savings figure is correct. Because school districts can only acquire the computers through direct bid, a consortium, or state contract, SFB believes that the cost comparison should be against those sources. Since no district went to bid directly for the same computers and the Mohave Educational Service (consortium) could not offer lower rates, the SFB calculated the savings as the reduction from state contract prices.

RS:LS:ss
Attachments

Attachment 1

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District 29

COMMITTEE:

APPROPRIATIONS

To: The Honorable Members of the Arizona State Legislature
From: Representative Galen Updike
Subject: Arizona School Facilities Board Statewide Technology Purchase
Date: 09-12-2000
CC: Governor Jane Dee Hull, Joint Legislative Budget Committee, House and Senate Staff, State Auditor General, State Procurement Dept., School Facilities Board

Dear Fellow Legislators:
You have received at least two, and maybe three communications from Dr. Philip Geiger, Director of the School Facilities Board (SFB) regarding the acquisition of some 30,000 - 50,000 computers. In one of those communications, a nine-page memo dated June 29, and again in the same memo, dated July 25, Dr. Geiger states that he wants to "respond to comments being made" by me, Galen Updike, to other legislators, and "to set the record straight." He goes into great detail to describe the process of the bid and concludes boldly that **$10 Million** was saved over State Contract prices for these computers.

Brief Overview of this Memo
It is my belief that his conclusion regarding savings is misleading and inaccurate. The information and tables included below show that: 1) $10 Million was not saved when compared to competitive "quantity one" prices from other venues, or with "normal" prices from the Arizona State Contract for Micro Computers; and 2) with the huge number of computers to be purchased, the State could have leveraged the numbers for much better prices.

I am also concerned that computers are being given to School Districts with little concern for thriftiness. With a difference of almost $300 between the lowest and highest priced computers awarded in this bid, potential savings is great. But Taxpayers' interests have not been protected by any incentive within the distribution process to draw Schools to the lower-priced systems.

Lastly, in his memo to the Legislature, Dr. Geiger's characterizations of my company, CLH, and of myself are inaccurate and unfair. Contrary to Dr. Geiger's assertions, I have no personal interest in any of CLH's dealings with the SFB regarding this bid. I've raised concerns to a few of you because of the great deal of money involved, not because of a personal interest in the outcome.

My reasons for expressing these concerns are long range. By relating the details regarding the "numbers" for this bid, I hope to heighten interest in making specific changes in the process so that fewer taxpayer dollars will be spent when purchases of this scope are made in the future. As to the purchases yet to be made under the current SFB bid, I would hope the SFB and school districts would take whatever action is necessary to optimize taxpayer savings.

The discussion below defines those concerns. Also included below, in an Appendix, are some price tables which take the numbers provided in Dr. Geiger's report to you, restates them for clarification (Table 1), and then compares them to prices derived from other Arizona contracts and from Internet sources (Table 2).

My Background
My concern has consistently been about saving taxpayer dollars. I first became aware of the SFB computer bid after the May 24th "Kickoff meeting" for the award of the bid, where details of the acquisition process were fully explained.

Hearing those details, I called some trusted friends in Education. These officials had similar concerns based on their own reports regarding that event. Drawing impetus from their concerns, and after some further inquiries, I began my initial discourse with a few legislators, and subsequently shared my concerns with Dr. Geiger.

In addition to my role as a legislator, I work for CLH International, one of the bidders for the above-mentioned computers. However, since becoming a legislator in early June, my role at CLH has been greatly reduced. Included in Dr. Geiger's memo to the Legislature is mention of a letter from CLH sent to GITA, where it is stated that my activities regarding this dispute are *"...separate from CLH/ACT and do not reflect the position of CLH…"*. The letter also clearly acknowledges that I have had only a peripheral knowledge of CLH's involvement in the SFB Bid. Now, in fact, some of the outcomes I'm pursuing are in conflict with their interests.

While I have no pecuniary interest in the outcome of the SFB bid, I do have specific knowledge and substantial expertise regarding the configurations and pricing that make up the bid. I also have expert knowledge regarding the State Contract for Microcomputers. In the time since becoming aware of the SFB bid on May 24, I have done considerable research, including the background of this bid and many other contracts.

Background regarding the SFB Bid - Prior to May24th

The School Facilities Board documentation regarding this bid is extensive, indicative of the comprehensive planning necessary to acquire 50,000 (now about 35,000) computers for 228 school districts. It is one of the largest single acquisitions of computers in recent memory. Certainly it is the largest Microcomputer acquisition in the history of Arizona education. To place so many computers in such a relatively short time (May 24 to Oct. 15), special handling is required. I am in agreement that using the existing State Contract for Microcomputers (AD990005) was both timely and correct. Selecting multiple vendors and multiple brands of computers was in the State's best interest and necessary to accommodate the disparate needs of the school districts.

Sometime before the RFQ was sent to the vendors, SFB determined that the average computer price for this purchase should be about $1,000 per system. This expectation was stated in a press release April 24th : "50,000 computers for $50 Million". Expectations for even lower prices were mentioned in the pre-bid documentation and meetings.

Pricing Concerns - Price not commensurate with Quantity

It cannot be emphasized enough that the SFB bid was for **50,000 computers to be purchased in a relatively short period of time**. Incredible leverage on pricing is available for such situations. As the price submissions were first being analyzed, red flags should have gone up. Though some prices came in lower than the $1000 expectation (CLH and Transource pricing at $945 and $967 respectively), most were markedly higher. The offerings from Dell, Tangent, and Acer should have immediately seemed out of character. The accepted IBM price for the Windows 98 version was $1169. Compaq's price was $1173. Tangent pricing was at $1139. Acer was at $1184. Dell's offering was the highest accepted price of all systems at $1221, (See price tables, below) Typically in competitive situations, including the 1998 State Contract bid for Microcomputers, these last three brands come in substantially lower in price than comparable Compaq or IBM models.

If such a rearrangement of competitive positioning were explained by extraordinary prices offered by IBM and Compaq, I wouldn't have been so concerned. But that wasn't the case. My own inquiries after May 24 show IBM and Compaq prices offered in other less competitive venues to be only slightly higher than those offered to the SFB. In my opinion, Dell prices could have been much lower. So could have Acer's prices. Tangent's prices also seemed high, but the point is moot because the Tangent vendor was dropped from both the SFB and State Contract in June.

Searching the Internet reveals numerous examples of education prices near the offered SFB hardware prices. Examples of comparative Compaq prices range from $1227 to $1280, including 3-year on-site warranties. But all are QUANTITY ONE prices. Some of these configurations even exceeded SFB's minimum standard for Memory (64MB). That price offset going from 128MB to 64MB (about an $80 value) covers much of the cost of the SFB software and training add-ons. Yet the SFB bid was for **50,000 systems**. SFB appears to have received only minimal benefits from the massive quantities involved. (See price tables below.)

About that $10 MILLION in Savings

"***<u>With nearly 30,000 computers allocated to date, we estimate that we have saved more than $10 million through the statewide contract over standard contract pricing"</u>*** is the format and text of how SFB reported their conclusions about computer prices to JLBC, on the first page of the report. The total savings figure is derived by multiplying the estimated 30,000 computers by an interpolated average "savings" over Arizona State Contract pricing of about $300 per computer. The actual unit "savings" (shown in table format in the JLBC report) came from vendor worksheets filled out in early to mid-June.

My initial reaction to the reported savings was **shock.** If the reported "savings" were an accurate reflection of what the State is otherwise paying for certain brands of computers off the State Contract, then one can legitimately say that that Contract needs serious evaluation. For example, in some instances SFB's reported State Contract prices are higher than Manufacturer listed retail prices. Such comparisons do not engender confidence in the State Contract. Fortunately, after some research, it became apparent that the reported SFB "State Contract" prices in question were somewhat exaggerated.

The worksheet used to derive SFB's reported savings is detailed to a fault. But it compared "apples and oranges". The worksheet mixed "formula driven, quantity-one" contract terms with "real world, non-formula, cost-based" discounting terms. A close analysis shows that though the calculations were accurate, they reflected **the maximum allowable costs** each vendor could add to any given system, per each vendor's respective terms and conditions on the State contract. Typically such costs are only used in special non-competitive or quantity-one situations. (For example, the add-on for 3 Year **On-site** Warranty can add many hundreds of dollars per system.) In competitive situations most vendors choose not to use them. In this bid, these and other pricing terms were set aside by SPO for this one-of-a-kind SFB purchase under the State Contract. Vendors were asked to get special prices from manufacturers. It was explained in the Pre-bid meetings that NO precedence would be set for future price expectations from the vendors as a result of this bid. To compare savings from **Quantity-One** pricing formulas, derived from maximum allowable terms, with **Quantity Fifty Thousand** pricing formulas, has no real meaning, unless you just want to justify high prices.

The only truly valid comparison would have been a comparison with a contract of similar size and scope. Absent such a contract of similar scope, the next most valid comparison would be a unit price comparison with other statewide and multi-state (MESC, WSCA) contracts, that are often used by Education and other political subdivisions, and where volume is a key component. No such comparisons were reported, other than a "feel good" anecdotal statement from one vendor.

Based on my own limited comparisons of quantity-one prices in other venues, if there were savings, they were minimal. (See *Table 2)*. Adjusting for the add-ons for such prices gives "apple to apple" comparison opportunities. The highest SFB price for a Win98 Computer is $1221 and the lowest adjusted price from another co-operative contract commonly used in Arizona for the same model $1299. Average savings for the SFB item is $78. SFB savings for other models range up to $230. The overall average unit savings would then be about $150 for all models. Multiplying overall average savings by the approximate 30,000+ computers results in a total estimated SFB savings of, at most, $4.5 Million. This is comparing SFB prices to **Quantity-One** prices available to any Arizona government entity. **The reported $10 Million in savings is fiction**. (See the Tables below to draw your own conclusions.)

Quote unfairly attributed to me

Dr. Geiger inaccurately states in his memo the following: *"One vendor, CLH, through one of its representatives, Galen Updike, recommended that every school that purchases ACT computers sold by CLH should get additional funding beyond the price of the computer and beyond the state guidelines in order to encourage the districts to buy the ACT computer at a lower price.*" (Geiger memo, page 5, answer to question 3)

At no time have I ever made such a recommendation. First, I don't represent CLH regarding the SFB bid. Second, it would be foolish to be so blatantly self-serving. Such a "recommendation" can only be attributable to me IF a pejorative conclusion as to my motive is "spun" with part of a suggestion that I and others have made regarding incentives for thriftiness. The gist of the suggestion is that school districts choosing to be "given" the lower-priced systems also be rewarded with some upgrade, up to some limit. Different school district representatives aired a couple of derivations of the suggestion at the May 24 "Kickoff meeting". One wanted to use the maximum price difference between the highest-priced computer and the chosen computer as the limit. Others suggested using some average of the high and low price. That way, thrifty schools choosing the lower-priced computers would not be penalized for their thriftiness, and real hardware value would be received for the dollars spent. It is unfortunate that the recommendation, offered by others and repeated by me on occasion, for the purpose of encouraging schools to be thrifty, has been "spun" into the above misquote.

Incentives and Technical Considerations

In earlier meetings, in written communications, and at the May 24 "Kickoff meeting", GITA personnel repeatedly assured schools that there were no technical differences between computers, and that all awarded computers were equally acceptable. The oft-repeated advice of "you pay for what you get" does not apply here. Higher prices in this case do not mean better computers.

Unfortunately after the award, taxpayers' interest seems to have taken a back seat in the process. Schools <u>with no prior need for a particular brand</u> have an unrestrained choice to receive any system on the list. There was no acknowledgement of a need for an incentive to offset the natural tendency to choose the higher-priced models. In a worst case scenario, if every school district chose the highest priced computers, with a $300 difference between highest and lowest prices, taxpayers would be asked to spend up to $10 Million <u>more</u> than is technically necessary. Conversely, up to $10 Million would be saved if all districts could be persuaded to buy the lower-priced computers.

In my conversation with Dr. Geiger and others, I've repeatedly emphasized that to expect ALL schools to choose the lower-priced computers isn't feasible. Forcing districts into a different brand or into new vendor relationships foreign to their current situations is both bad policy and inappropriate. However, acknowledging the needs of a few districts where brand **is** an issue doesn't relieve all the other Districts or SFB of their fiduciary responsibilities to spend no more than is necessary. Incentives should have been structured to maximize thriftiness. Even saving an average of $100 per computer over the entire acquisition would mean that nearly $3 Million dollars could be saved. $3 Million equals the entire budget for many State agencies.

Such incentives could be "negative" (Districts must justify their choice of a higher-priced model before reimbursement is approved.) or "positive" (Districts choosing the lower priced systems get an extra $50 - $100 reimbursement from SFB to upgrade those systems to a faster CPU, etc.) Incentives could have been carefully constructed to optimize savings. Dr. Geiger's only counter to this suggestion by me and others was that it was not the School Facilities Board's role to "…help a vendor sell computers or to enrich a district beyond the state regulation". To the contrary, encouraging frugality is a core responsibility for the SFB.

Unfortunately, it now appears that many districts have **unnecessarily** chosen to be "given" the higher-priced computers. Even a little incentive, positive or negative, would have counteracted the natural attraction of being "given" a higher-priced computer. With such large numbers at stake, it is irresponsible management not to have tried something.

The Problem of Add-ons

Perhaps to counter some of their high prices, after the bid was awarded, Vendors were allowed to quote their system prices and include free add-ons. Dr. Geiger makes a considerable point regarding these "free" add-ons, saying, *"many of the other contractors and manufacturers offered considerable value added services to the schools ranging from free educational software bundles to free printers, to enhanced features, to free learning labs."*

The word "other" in his quote refers to vendors other than CLH, who Dr. Geiger singles out as not offering many "freebies". Not only does he **not** acknowledge the value of their $300 lower price, he infers a criticism of that low price by quoting from GITA's Website, a statement made <u>two years earlier</u>. The quote, "Least cost in the case of computers may not always be the best value to the procuring entity" is used to justify SFB's failure to formally encourage Districts to choose the lowest-priced computer.

As it relates to the SFB bid, such a statement is unwarranted. Purportedly, all extraneous "value-add" concerns were equalized before the bid. Every system included a 3-year On-site Warranty, software, turn-key setup at all school locations, certified quality products and a training credit. The State Contractors selected had already proven their abilities to provide statewide service and one-stop shopping for the products they offer. Singling out and then criticizing CLH for their low price is very unfair and inappropriate.

More Unfairness because of "Freebies"

Finally, it is very inappropriate to create an "auction" environment after a bid of this type is awarded. It has been reported to me that vendors are now being asked by schools for add-ons or premiums above and beyond the contracted for system, before a district will choose their product. The true value of these add-ons is unknown. At best, value is highly subjective. In this environment, a vendor who has already given up significant margin through a lower initial price is at a disadvantage, because under the contract they cannot raise their prices to accommodate for "freebies" now being offered by others. The higher-priced computer vendors have room to submit all kinds of "approved" value-adds. Of course the school districts negotiating for these "freebies" don't pay for anything, and can choose a system without regard to price. But Taxpayers pay. They pay for the computers and the "freebies". Current emphasis on the value-adds or "freebies" has added cost, uncertainty and confusion to the process. It has created a suspicion that maybe even more "freebies" can be wrung out of the vendors. It has also opened the door for more egregious abuses.

To this point, one can legitimately ask the question, "If prices are so low, why is there is room to give away even more product or service?" Before the bid, State Procurement and GITA repeatedly emphasized that the bid prices were to be as low as possible. Now, by saying that vendors are providing "considerable value added services" or product is an admission that initial prices were higher than they should have been. This just supports my original contention regarding those high prices. Red Flags should be going up all over the State about those "freebies".

Conclusion

For all their hard work, SFB could have done a better job in getting lower prices for the volumes involved. Because it was not a formal bid, but was tied to the State Contract for Microcomputers, many procedural freedoms existed for SFB in this particular process.

Though it's certainly apparent that SFB prices provided some savings over State Contract prices, **$10 Million was not saved**. And when compared with pricing in other competitive venues, savings may have been even less. But we'll never know. Such a comparison of those venues was not done. Most importantly, **my concern was not how much was saved**, but whether or not the SFB and Taxpayers got the lowest prices possible from the Vendors and Manufacturers involved. Taxpayers expect the SFB to provide quality and cost effective solutions to meet the educational needs of Arizona's children.

Other concerns are also raised:

- Why were there no incentives built into the process to encourage School Districts to be frugal?
- Why was the process structured in such a way to give advantage to vendors who could offer more "freebies" instead of lower prices? Is auctioneering after a bid is awarded healthy? Is it legal?
- Why were no comparisons offered to contrast prices from other "venues" or with "Street" price?
- If Dr. Geiger's numbers regarding the State Contract for Microcomputers are correct, does that merit a close price review of that Contract?
- Are the numbers and processes used by SFB to show savings accurate?
- Does SFB have the knowledge and capacity to get the best prices for other large scale purchases?
- How best can vendors be held responsible for their prices?
- To what extent, if any, is legislative review merited?

As a post-mortem on the process, I'm recommending that there be specific inquiry into the issues raised above.

APPENDIX SHOWING DETAILED PRICE COMPARISONS

There are two types of vendors on the State Contract, Value Added Resellers (VAR's), and Direct Manufacturers (DM's). In their respective State Contracts, computer prices are based on a bid formula or percentage. VAR's have contracted to not price products above a percentage over Manufacturers' invoiced costs (IKON - 7%, CompUSA - 7% & 8%, MicroAge - 7%). DM's must price systems below a minimum discount percentage off their MSRP (CLH-15% off MSRP, Transource-17% off MSRP).

The table below combines each vendors' SFB Price (Column 1) with the SFB Listed Savings (Column 2). The resulting total is the SFB Calculated State Contract Price (Column 3) The next three columns are the respective vendor State Contract authorized prices for the Add-on software, services and training. These values come from the worksheet SFB and GITA required Vendors to complete the first part of June. These values are then deducted from the Calculated SFB State Contract prices to derive an interim Hardware price with a 3-year Onsite Warranty (Column 7). To obtain the “bare” SFB State Contract price, the authorized allowable Vendor warranty price (Column 8) is deducted from the interim Hardware price. The final "adjusted" SFB State Contract Price (Column 9), along with prices in Column 1 and Column 3 can then be compared with non-State Contract prices, shown in Table 2, for selected brands of computers.

Table 1 - Combined SFB and Derived SFB Computer Prices

Vendor	Model	1) Win 98 SFB Price	2) SFB Listed Savings	3) SFB Calculated Comparable State Price	4) SFB Cost Softwar	5) Install & Setup	6) Asset Training	7) SFB Calculated Hardware Only Price	8) SFB 3 yr. Warranty Costs	9) NET Calculated Hardware Base Price
CLH	Ovation	**$944.77**	$233.40	**$1,178.17**	$47.39	$70.00	$60.00	**$1,000.78**	138.04	**$862.74**
CompUSA	ACER	**$1,184.16**	$189.83	**$1,373.99**	$47.27	$89.25	$60.00	**$1,177.47**	138.04	**$1,039.43**
IKON	Toshiba V3300D	**$1,161.98**	$263.41	**$1,425.39**	$47.62	$72.50	$60.00	**$1,245.27**	162.82	**$1,082.45**
IKON	IBM PC 300	**$1,169.07**	$579.94	**$1,749.01**	$47.62	$72.50	$60.00	**$1,568.89**	214.64	**$1,354.25**
IKON	HP Vectra P600 EB	**$1,172.55**	$656.45	**$1,829.00**	$47.62	$72.50	$60.00	**$1,648.88**	215.07	**$1,433.81**
IKON	Compaq Deskpro EP 6667+	**$1,173.02**	$965.10	**$2,138.12**	$47.62	$72.50	$60.00	**$1,958.00**	255.39	**$1,702.61**
Inacom	Tangent (Now Off Bid)	**$1,139.18**	$266.56	**$1,405.74**	$47.39	$81.00	$60.00	**$1,217.35**	35.37	**$1,181.98**
MicroAge	Dell Optiplex GX110 L	**$1,221.40**	$661.01	**$1,882.41**	$47.39	$81.00	$60.00	**$1,694.02**	232.03	**$1,461.99**
Transource	Mirage EP 600	**$966.62**	$478.00	**$1,444.62**	$47.15	$25.00	$60.00	**$1,312.47**	140.64	**$1,171.83**
Transource	Mirage P 650	**$998.62**	$521.00	**$1,519.62**	$47.15	$25.00	$60.00	**$1,387.47**	148.70	**$1,238.77**

NO $10 Million in Savings over alleged State Contract Prices.

The final SFB bid prices are as much as 35-45% below SFB's derived State Contract pricing (Dell and Compaq respectively). One particular example (Compaq) shows an alleged SFB savings of $965.10 per system. If that discounted "savings" amount is added back to the SFP bid price for that model ($1,173) one sees the alleged current calculated State Contract price for that model would to be $2,138 (price column 3).

Compaq's retail price (quantity one) from their Website is $1,668, including a 3 year on-site Warranty. Adding the service and training total of $157 (sum of Columns 4,5,6) results in a RETAIL comparison price of $1825, which is about 20% **below** IKON's reported SFB State Contract price of $2,138. Certainly a State Contract Price should not be higher than a Manufacturer's retail price. Nor is it.

IKON's own website shows their current State Contract quantity-one price for a Compaq EP667 and Monitor to be $1,549. Add the Service and Training add-ons ($157) to this price and the total comes to $1706, again substantially below the $2138 IKON calculated in their SFB savings worksheet, from which Dr. Geiger takes his numbers. Thankfully, it is also below Compaq's Website price. The lowest price I have seen for a comparable Compaq system in a State Contract context is $1,390 (a competitive quote situation) including 3 year on-site Warranty. Add $157 for the SFB additional services, and this resulting State Contract price is $1,547, almost $600 below the reported SFB State Contract prices.

A comparison between the SFB "State Contract price (Column 3) and Dell's website price is just as instructive. Dell's web price is $1365 including a 3Year Warranty. **Any person in the world can buy at that price**. Adding the service and training component of $132 (Columns 4,5,6) gives a price of $1,497. Unless MicroAge is blatantly misrepresenting its prices from Dell, this is far below the $1,882 reported as being MicroAge's State Contract price for this item.

Let me repeat. The alleged State Contract prices as reported per Dr. Geiger's justification Worksheet are tremendously high. The prices do not stand up under scrutiny. Nor are they an accurate reflection of today's competitive environments, not compared to examples from State Contractor Web-Sites, or directly from Manufacturers' Web-Sites.

Prices for SFB could have been better

An example from Dell illustrates the point. Dell is provided through MicroAge. SFB reported the Dell State Contract price to be $1,450. (Per their State contract, MicroAge's reported cost for this item is $1,355). Add the required add-ons and on-site 3-year Warranty and the price goes to $1882. For the SFB contract MicroAge bid $1221 (including all add-ons), seemingly a sizable discount.

However, that same system is available from Dell via the WSCA contract, May 25 at $1168, including a 3-year on-site warranty. For comparison, add the quoted add-on price of $131.46 to the WSCA **quantity one** contract pricing for Dell results in a potential Dell price of about $1299, **quantity one price (not quantity 50,000)**. (bold added for emphasis)

A contemporary Dell price to the University of Arizona for a similarly configured computer was priced at $1,250 just a little higher than WSCA prices. Prices quoted to UofA were via the State Contract and were for 11 systems.

Dell's price via their Website for this product is currently $1,365, also including a 3 year on-site Warranty (versus the SFB bid for 50,000 at $1,221). To be fair, one should deduct the $60 for ASSET training, which the vendor doesn't keep, and the $41cost of two software licenses, leaving a net comparable SFB price of $1,120. To be really fair, one has to consider shipping and setup, (not high cost item when bidding quantities) which are also included in that price. But not including shipping and set up, Dell only provided 18% off their website retail price ($1120/$1365), for a 50,000 unit computer bid.

Numerous other Website based contracts were looked at regarding Dell, IBM, and Compaq prices. They are also included in the Table below.

Table 2

COMPARISONS OF SFB PRICES (without ADDONS) to Competitive Prices from Other Govt. Based Bids

		3) SFB Derived	**7) SFB Calculated**	**9) SFB Derived**	**Compar-ative**	**Selected Comparative Prices 3 yr. Onsite Warranty**					
		State Contract Price	**State Contract Price**	**State Contract Price**	**Vendor Website or Bid**	**Manu-Facture's Website**	**Prices in In BOLD ADD**		**2nd Row include -ONS****		
Vendor	**Model**	**With all Addons**	**w/o any Addons**	**w/o Warrnty**	**Qnty 1 AD990005**	**Qnty 1 w/ 3 Yr Warranty**					
CLH	Ovation	**$1,178.17**	$1,000.78	$862.74	$1,025						
CompUSA	ACER	**$1,373.99**	$1,177.47	$1,039.43	$1,175						
IKON	Toshiba V3300D	**$1,425.39**	$1,245.27	$1,082.45							
IKON	IBM PC 300	**$1,749.01**	$1,568.89	$1,354.25	$1,653	$1,383			$1,242 **$1,399****		
IKON	HP Vectra P600	**$1,829.00**	$1,648.88	$1,433.81							
									Daly-128mb 10gb pII667		
IKON	Compaq Deskpro EP 6667+	**$2,138.12**	$1,958.00	$1,702.61	$1,549	$1,668			$1,227. **$1,384****		
Inacom	*Tangent (Now off Bid)*	**$1,405.74**	$1,217.35	$1,181.98							
					UofA Bid Qnty 11	**Dell Website**	**AZ State WSCA**	**MU**	**Loyola NT 128mb 10gb**	**MSU-128 10gb**	**Colonial -15gb, 128**

MicroAge	Dell Optiplex GX110 L	**$1,882.41**	$1,694.02	$1,461.99	$1,250 **$1,382**	$1,365	$1,168 **$1,299**	$1,280 **$1,411**	$1,348 **$1,479**	$1,223 **$1354**	$1,195 **$1,326**
Transource	Mirage EP 600	**$1,444.62**	$1,312.47	$1,171.83	$1,073						
Transource	Mirage P 650	**$1,519.62**	$1,387.47	$1,238.77	$1,128						

****(Note:** Prices in **Table I -Column 5** are soft costs and range substantially from Vendor to Vendor. The State Contract price for "install and setup" is not a true reflection of what actual unit costs for those items would be in a bid for 50,000 computers. Comparisons with other venue's prices need to be adjusted accordingly)

Attachment 2

STATE OF ARIZONA SCHOOL FACILITIES BOARD
INTEROFFICE MEMORANDUM

TO: JOINT LEGISLATIVE BUDGET COMMITTEE

FROM: DR. PHILIP E. GEIGER, EXECUTIVE DIRECTOR

SUBJECT: STATEWIDE COMPUTER PURCHASE

DATE: 10/16/00

CC: SCHOOL FACILITIES BOARD MEMBERS, MEMBERS OF THE ARIZONA STATE LEGISLATURE, GOVERNOR JANE DEE HULL

Several months ago, The State of Arizona School Facilities Board decided to utilize the statewide computer bid prepared by State Procurement and the Government Information Technology Agency to expedite the purchase of 30,000-50,000 computers to remedy the technology deficiency for all of Arizona's public schools. We knew that procuring the computers on a statewide basis rather than each district trying to bid these computers would save the state money, assure quality purchases, provide necessary training and software, provide three-year on-site warranty, and assure set-up and removal of all packaging. We estimated the savings to be $10 million based on 50,000 computers being purchased, or about 20% less than the price available through State Procurement.

Since the school districts only have three choices by which to acquire their goods and services: direct bid, purchase through a consortium, or State Procurement, our comparison of costs can realistically only be through one of those sources. No district bid the same computers or received a better price for the same configuration. Mohave Educational Services stated in a June 12th letter that they could not "beat" these prices. Our comparison for the purpose of demonstrating savings comes from a comparison of prices under the School Facilities Board statewide purchase vs. the State Procurement bid from which all other state agencies purchase their computers. Even though we are buying only 36,074 computers, our estimate of $10 million savings stands.

Would there be greater savings if school districts did not have to follow state procurement rules? Perhaps. However, until the state legislature exempts schools from following procurement rules, our best estimate is that we will save $10 million by purchasing computers through a statewide education contract instead of purchasing through one of the methods noted above.

Joint Legislative Budget Committee

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DATE: October 12, 2000

TO: Senator Randall Gnant, Chairman
Members, Joint Legislative Budget Committee

THRU: Richard Stavneak, Director

FROM: Stefan Shepherd, Senior Fiscal Analyst

SUBJECT: DEPARTMENT OF ECONOMIC SECURITY - REPORT ON CASE MANAGEMENT SATISFACTION SURVEY

Request

Pursuant to a request made by the Committee at its August 17 meeting, the Department of Economic Security (DES) is presenting the updated results of a developmental disabilities case management satisfaction survey designed by the Developmental Disabilities Case Management Pilot Projects Committee as established by Laws 1999, Chapter 292.

Recommendation

This item is for information only and no Committee action is required. The baseline survey conducted by DES indicates general satisfaction with case management services from the Division of Developmental Disabilities (DDD). Approximately 63% of developmentally disabled clients rate DDD case management services as "excellent." Approximately 66% of developmentally disabled clients would select DDD case management services if given a choice between DDD, a family member, themselves, or a non-DDD individual.

Analysis

Laws 1999, Chapter 292, Section 5 requires DES to present to the Committee the results of a developmental disabilities case management satisfaction survey designed by the Developmental Disabilities Case Management Pilot Projects Committee as established by Laws 1999, Chapter 292. At the August 17 meeting, DES presented its report to the Committee. Although the report provided valuable background on the pilot project, it only discussed results from a small "field test" of the baseline survey, and not the results from the baseline survey itself. Because Laws 1999, Chapter 292 requires the report to include the results of this baseline survey, the Committee asked that DES to update its report with the full results by October 1.

DES has submitted its updated report, which is attached to this memorandum, along with the JLBC Staff analysis of the original report. Aside from minor editing changes, the updated report differs from the original report in two major ways: the inclusion of full baseline survey results and a status report of actions that have occurred since the original report. The updated report also contains a pair of new appendices related to federal Health Care Financing Administration (HCFA) questions and a case management task analysis.

Survey Results

The department contacted a total of 1,160 persons by telephone for the survey. These persons were all clients of the department's Division of Developmental Disabilities (DDD). Of the 1,160 persons on the randomly-selected survey list, a total of 553, or nearly 48%, answered survey questions. Given the size of the total DDD population and the number of respondents, the results can be assumed to be a fairly representative reflection of current satisfaction with DDD case management.

The survey shows that a majority of DDD clients are satisfied with DDD case management services. When asked to rate the overall quality of case management services, nearly 63% of respondents rated their case manager a 5, or "excellent." Another 21% respondents rated their case manager a 4, or "good." This compares to the 9% of respondents who rated their case manager a 1 or 2, "very poor" or "poor." When asked about their case manager's ability in a variety of areas (e.g., speed, knowledge of available, availability to understand my needs), roughly 60% of respondents gave their case manager an "excellent" rating. The only areas in which the proportion of clients rating their case manager as "excellent" dipped below 50% were areas such as education, employment, and mental health in which a large number of persons responded "not applicable."

When asked who they would choose to provide case management if presented with that option, about two-thirds (66%) of respondents said they would choose DDD. The remaining 34% said they would choose someone besides DDD – 16% would choose a family member and 9% each would choose themselves or another individual not employed by DDD.

These results and others in the survey will help the Developmental Disabilities Case Management Pilot Projects (DD) Committee evaluate the success of the case management pilot programs. The purpose of the pilot is to expand the range of case management choices available to DD clients. The DD Committee will monitor client satisfaction and access to services during the pilot. The results of the pilot will be included in a report by the DD Committee to be completed by November 15, 2002; JLBC will receive a copy of this report.

Project Update

Since the original report was submitted by DES, there have been a number of developments in the pilot's status. Most significantly, the federal HCFA responded to a waiver request by DDD and the Arizona Health Care Cost Containment System (AHCCCS) with a series of questions. DDD and AHCCCS have submitted a response and are awaiting word back from HCFA. A waiver is required because the pilot will affect Title XIX clients subject to HCFA rules. The department still believes that the pilot will begin in January 2001.

In addition, a Request for Proposals to establish case management contracts will be released this month. The DD Committee has also been working on a draft evaluation plan for the pilot, along with a marketing plan to promote the pilot. Finally, a case management task analysis tool has been developed to help those families and individuals who wish to assume case management responsibilities.

Attachments
RS:SSH:jb

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DATE: October 12, 2000

TO: Senator Randall Gnant, Chairman
Members, Joint Legislative Budget Committee

THRU: Richard Stavneak, Director

FROM: Stefan Shepherd, Senior Fiscal Analyst

SUBJECT: DEPARTMENT OF ECONOMIC SECURITY - REPORT ON ANNUAL CHILD CARE EXPENDITURES

Request

Pursuant to a provision in A.R.S. § 46-810, the Department of Economic Security (DES) is submitting its annual child care report.

Recommendation

This item is for information only and no Committee action is required. Comparing this child care report to previous reports indicates that the number of children receiving child care subsidies has increased since FY 1997, as has the total amount of subsidy expenditures.

Analysis

Laws 1997, Chapter 300 included a series of welfare reform-related requirements. Section 63 of that bill added a new statutory requirement in A.R.S. § 46-810 stating that DES shall provide a report with child care data to Committee members by October 1 yearly. The statute specifies a series of data to be provided in each report. In the analysis below, we provide information on each set of data from the first report submitted October 1, 1997 through the attached report.

Average Number of Families and Children Served Monthly

From FY 1997 to FY 2000, the average number of families served monthly increased 17.3% while the number of children increased 29.0%. In general, participation in Temporary Assistance for Needy Families (TANF)-related child care has decreased from FY 1997 to FY 2000, though transitional child care participation has remained relatively stable. This reflects the overall decline in the number of TANF Cash Benefit recipients over the same time period. Participation in low-income working child care has increased significantly since FY 1998 (from 12,860 children in FY 1998 to 20,933 children in FY 2000, an increase of 62.8%), in part because the maximum income level has been increased to 165% of the Federal Poverty Level (FPL).

	FY 1997	FY 1998	FY 1999	FY 2000
Families	18,275	18,359	17,890	21,445
Children	29,624	32,467	36,594	38,227

Amount Spent on Child Care Programs

From FY 1997 to FY 2000, the total amount expended on child care subsidies (excluding "quality"-related expenditures) has increased 95.7%. This increase reflects both increases in the number of children as discussed above, legislatively-approved increases in maximum reimbursement rates to providers, and providers raising their rates within those maximum reimbursement levels. As can be seen in the table below, the average monthly subsidy per child (using figures from the previous table) has increased from $162.40 in FY 1997 to $246.32 in FY 2000, an increase of 51.7%.

	FY 1997	FY 1998	FY 1999	FY 2000
Total (State and Federal) Expenditures on Subsidies	$57,728,900	$74,158,200	$85,295,100	$112,992,400
Average Monthly Subsidies/Child	$ 162.40	$ 190.34	$ 194.24	$ 246.32

Number of Persons Eligible for Transitional Medical and Child Care Benefits, Number of Recipients

The statute requires information on persons eligible for transitional medical assistance (TMA) and transitional child care (TCC) as well as acutal recipients. The first question revolves around eligibility. All persons eligible for TMA are enrolled in TMA, so that percentage has remained at 100% from FY 1997 to FY 2000. The percentage of TCC-eligible clients using TCC has increased dramatically from FY 1997 to FY 2000, from 44% to 83%. The number of persons actually using the program has varied in each program. Transitional Medical Assistance participation has varied from year to year and within the first 12 months and second 12 months of eligibility. We would note that FY 2000 figure masks a dramatic increase in participation by participants in their first 12 months of eligibility: June 2000 participation has increased 96.3% from June 1999. Transitional Child Care participation, on the other hand, has remained relatively steady since FY 1998.

	FY 1997	FY 1998	FY 1999	FY 2000
Transitional Medical Recipients	23,903	23,547	18,202	20,505
Transitional Child Care (TCC) Recipients	7,164	9,299	8,574	8,568
% of Eligible TCC Children Using TCC	44%	62%	87%	83%

Number of Persons on Waiting List

Since April 1997, there has been no waiting list for child care subsidies.

Co-Payment Levels

Since FY 1997, co-payment levels for low-income working child care recipients or TCC recipients have been unchanged for those under 135% FPL. Laws 1998, Chapter 208 increased the maximum eligible income level in statute to 165% FPL starting in FY 1999, and co-payment levels were added for those clients. The table below indicates the current maximum monthly income for each fee level for a parent and one child and the co-payment per day for full-day care for that child. We would note that since the Federal Poverty Level is adjusted slightly each year, the maximum monthly income is also adjusted slightly.

	<85% FPL	86-100% FPL	101-135% FPL	136-145% FPL	146-155% FPL	156-165% FPL
Maximum Monthly Income	$784	$922	$1,245	$1,337	$1,430	$1,522
Daily Required Co-Payment - Full Day	$1.00	$2.00	$3.00	$5.00	$7.00	$10.00

Co-Payment Money Collected by DES

The amount of money collected as co-payments has more than quadrupled from FY 1997 to FY 2000. This increase is not surprising, given the increase in the number of clients and the expansion of the eligibility levels beyond 135% FPL and their relatively high levels of required co-payments compared to those in eligibility levels below 135% FPL.

	FY 1997	FY 1998	FY 1999	FY 2000
Co-Payment Monies Collected	$2,929,400	$6,144,300	$6,148,200	$12,838,300

Payments to Relatives

After a dramatic drop from FY 1997 to FY 1998, the number of children in child care with relatives paid for providing those services in FY 2000 exceeded the FY 1997 levels by 11.1%. From FY 1997 to FY 2000, however, the amount paid to relatives for the child care has more than tripled. The amounts listed below are adjusted after the publication of the yearly report to reflect claims submitted after publication, so the unadjusted figures listed below are likely less than the final figures.

	FY 1997	FY 1998	FY 1999	FY 2000
Children in Relative Care	6,167	3,726	4,531	6,849
Total Amount Paid to Relatives (Unadjusted)	$2,929,400	$7,209,700	$8,427,100	$9,363,600

Payment Rates and Maximum Provider Rates

Maximum payment rates in FY 1997 and FY 1998 were set at the 75th percentile of all rates set in a 1989 market rate survey. (This means that the maximum rate DES would pay any provider was set at the rate charged for a particular type of care – for example, an infant in a Pima County child care center – by 75% of all providers in 1989.) These rates were increased to the 75th percentile of the 1996 market rate survey in FY 2000. The impact of these increases has varied depending on the type of child care provider (i.e., center, group home, certified home, relatives), geographic region, age of child, and full-day vs. part-day. Most maximum rates, however, increased 30-35%.

Families Providing Child Care as a Work Activity

Federal law permits states to allow welfare clients to provide child care to meet their work requirements. States may count such clients as working for the purposes of calculating work participation rates. Arizona statute does not include this as a "work activity."

In April 1998, DES established a special child care orientation and training curriculum open to welfare clients with interest and aptitude in child care employment. An estimated 50 individuals completed this training in FY 1999; 100 individuals completed the training in FY 2000.

RS:SSH:jb
Attachments

STATE OF ARIZONA

Joint Legislative Budget Committee

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DATE: October 12, 2000

TO: Senator Randall Gnant, Chairman
Members, Joint Legislative Budget Committee

THRU: Richard Stavneak, Director

FROM: Stefan Shepherd, Senior Fiscal Analyst

SUBJECT: DEPARTMENT OF ECONOMIC SECURITY - BIMONTHLY REPORT ON ARIZONA WORKS

Request

Pursuant to a provision in A.R.S. § 46-344, the vendor for the Arizona Works pilot welfare program is providing its bimonthly report on the Arizona Works program.

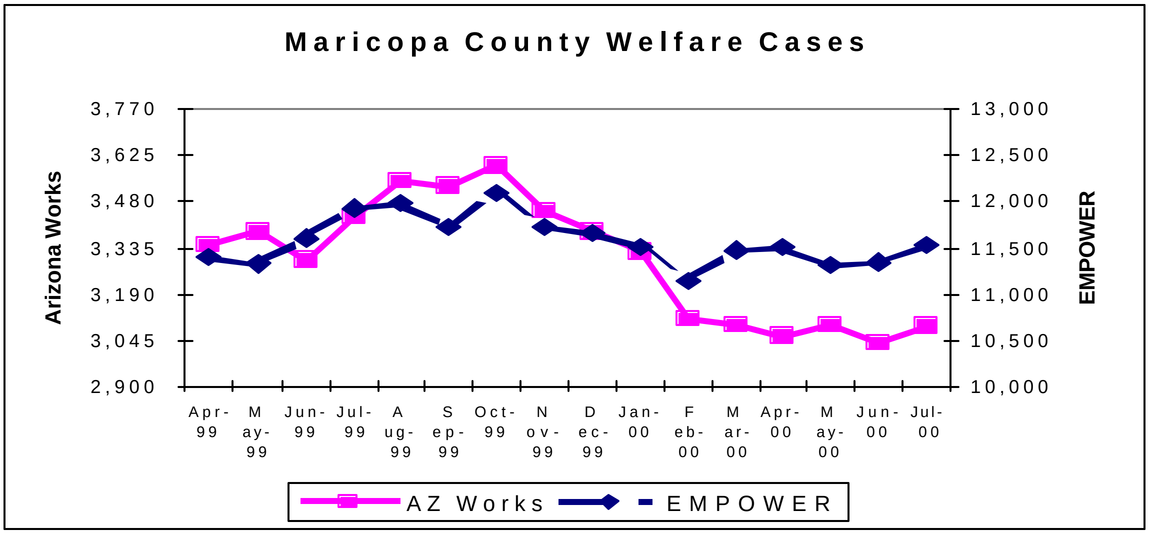
Recommendation

This item is for information only and no Committee action is required. Overall caseloads in the Arizona Works pilot area continue to be slightly less than EMPOWER Redesign caseloads in the rest of Maricopa County, compared to caseload levels in April 1999.

Analysis

The Arizona Works pilot program, which replaced the DES EMPOWER Redesign welfare program in DES District I-E (eastern Maricopa County), is operated by the private vendor MAXIMUS. The attached report covers caseload data through the end of July.

The graph on the following pages compares the total number of cases in the Arizona Works program with the caseload in the rest of Maricopa County. The total caseload in Arizona Works remains slightly less than the EMPOWER Redesign caseload, compared to caseload levels in April 1999. As in past updates, we would note that this graph includes cases in which there are no adults subject to Temporary Assistance for Needy Families (TANF) work requirements and tribal cases. These "no work requirement" cases comprise 40-45% of the total caseload and tribal cases comprise another 1-2%; their presence in the above figures may skew the results for cases with employable adults subject to work requirements, especially if "no work requirement" caseloads are responding differently in each area.



The following table provides information on the total number of Arizona Works cases by type over the past year. The table shows that the total population has remained fairly stable since February. The TANF population, which had been the source of earlier population declines, has also remained stable in recent months, though July 2000 caseloads were 26.6% below the August 1999 figure. We would note that the number of cases for which no work participation is required remains greater than the number of TANF cases, and is 4.5% above the July 2000 figure.

ARIZONA WORKS PROGRAM: TOTAL CASES BY TYPE

Month	TANF	No Work Participation	New Transfer In	Total
August	2,011	1,473	59	3,543
September	1,994	1,483	51	3,528
October	2,027	1,516	50	3,593
November	1,848	1,542	56	3,446
December	1,798	1,536	53	3,387
January	1,708	1,518	95	3,321
February	1,564	1,501	46	3,111
March	1,513	1,515	68	3,096
April	1,475	1,534	50	3,059
May	1,508	1,546	43	3,097
June	1,460	1,520	55	3,035
July	1,476	1,539	73	3,088

The MAXIMUS report contains information on the Arizona Works program in addition to the data discussed above. It notes that MAXIMUS has begun preparing for its role in operating the second Arizona Works pilot site, which will be Mohave County. The second pilot will begin on January 1, 2001. In addition, the report also notes that customer satisfaction surveys continue to show very little variance, with responses ranging between “Good” and “Excellent.”

Attachment
RS:SSH:jb

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DATE: October 12, 2000

TO: Senator Randall Gnant, Chairman
Members, Joint Legislative Budget Committee

THRU: Richard Stavneak, Director

FROM: Pat Mah, Senior Fiscal Analyst

SUBJECT: DEPARTMENT OF ECONOMIC SECURITY - REPORT ON DOMESTIC VIOLENCE BASELINE COST-EFFECTIVENESS

Request

Pursuant to Laws 2000, Chapter 122, the Department of Economic Security (DES) submitted for domestic violence programs its written report on baseline cost-effectiveness information and other recommended outcome measures that need to be developed with other state agencies and interested stakeholders.

Recommendation

This item is for information only but JLBC Staff recommends that DES report back to the Committee after developing its outcome measures. DES is still in its initial stages of collecting expenditure data and needs time to evaluate and plan cost-effective usage of the data. DES is also in the process of obtaining input from other state agencies and interested stakeholders on the outcome measures. As a result, we have recommended that DES report back to the Committee after receiving this input.

Analysis

Laws 2000, Chapter 122 is the end result of a Strategic Program Area Review (SPAR) that was conducted on domestic violence pursuant to Laws 1999, Chapter 148. The SPAR recommended that DES report to the Governor and Legislature its baseline cost-effectiveness information that

(Continued)

was being collected because of a recommendation in a 1997 Joint Program Authorization Review (PAR) that was presented to the 1998 Legislature.

As a result, DES submitted the attached report. It provides background information on the department's 1998 pilot project for establishing a data collection tool to collect baseline costs of shelters that receive state funding from DES. The bulk of the report is a copy of the data collection tool and graphics of expenditure data collected for the first six months of FY 2000. The graphics show expenditure data for all shelters, shelters over 22 beds, and shelters with 22 or less beds.

The department reports that the six months of FY 2000 expenditure data in its report is all that the agency has been able to compile to date. The department is still in the beginning stages of collecting the data. Therefore, it is too early to evaluate whether the expenditure data will prove to be baseline information that assist the agency in achieving cost-effectiveness. DES agrees that reporting of the data alone will not provide cost-effective benefits. DES intends to develop a plan that will use the data to demonstrate cost-effectiveness for its program.

According to DES, its goal is to develop outcome measures that link the expenditure data for costs of services to actual benefits received. DES has begun this task by requiring all of its domestic violence grant recipients to include outcome measures in their proposals for FY 2001 contracts. Contract recipients have to evaluate and report on their performance to determine whether they have met their outcomes. The department will monitor and analyze the results to assist it in developing standard measures for use in future contracts. DES also reports that it hopes to use the expenditure data to compare service levels rendered by different providers. This information can then be used to determine whether service rates are cost-effective and what rates should be used when issuing any future Request for Proposals for service contracts.

Laws 2000, Chapter 122 also required that DES include in its report to the Committee some recommendations for domestic violence outcome measures which need to be developed with other state agencies and interested stakeholders. The report contains the following three "examples" of measures that were put together by DES Staff to reflect a systems approach to preventing and responding to domestic violence:

- Increase the safety of victims and their children by reducing the numbers of victims who are unable to access shelter and increasing the number of victims who receive shelter and support services upon request.
- Increase effective consequences and treatment to perpetrators as measured by increasing the numbers of perpetrators involved in the criminal justice system and increasing the cessation of violence for those involved in the Offender Treatment Programs.
- Increase community response to domestic violence as measured by increasing the number of communities in Arizona that have developed protocols for a coordinated domestic violence response, increasing public awareness of the community's response, and measuring public attitudes and opinions regarding domestic violence.

(Continued)

DES reports that it does not have the expertise needed to develop systemwide measures. It needs input from other state agencies and interested stakeholders to make the measures achievable. DES plans to get this input from the Domestic Violence and Sexual Assault State Plan Task

Force that was established by Laws 2000, Chapter 122. The department will begin by submitting its own domestic violence program draft measures that can be blended with measures from other states agencies and interested stakeholders by the Task Force to form systemwide measures.

The Task Force's first meeting is tentatively scheduled for October 27, 2000. Members are to consist of individuals from the public and private sectors who are required to develop a consolidated state plan to ensure coordinated and efficient use of resources to address domestic violence and sexual assault prevention, prosecution, and supportive services to victims. Among other things, the state plan is to include outcome goals, gaps in services and resources, and methods to ensure coordination and collaboration between state agencies and other interested parties. The Task Force is to issue a state plan and report of findings and recommendation to the Governor and legislative leadership by December 1, 2000.

The report submitted by DES meets the requirements outlined in Laws 2000, Chapter 122. However, the report has very limited content because the agency is in the initial stages of collecting expenditure data and needs time to evaluate and plan cost effective usage of the data.

With regard to outcome measures, we agree that DES does not have the expertise needed to develop systemwide measures. A suitable forum for this is the new Domestic Violence Task Force. DES could have been more proactive in forming outcome measures for this particular report, however, by soliciting the opinions of experts in other state agencies.

The JLBC Staff plans to monitor DES' progress in meeting its goals. The JLBC Staff also recommends that DES report back to the Committee after outcome measures are established to achieve the agency's goals. DES indicates that it should be able to document its progress in meeting its goals in about 12 to 18 months.

RS:PM:ss
Attachments

STATE OF ARIZONA

Joint Legislative Budget Committee

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BOB MCLENDON
CHRISTINE WEASON

DATE: October 12, 2000

TO: Senator Randall Gnant, Chairman
Members, Joint Legislative Budget Committee

THRU: Richard Stavneak, Director

FROM: Gina Guarascio, Senior Fiscal Analyst

SUBJECT: OFFICE OF THE ATTORNEY GENERAL - REPORT OF PLAN TO SPEND PORTION OF INTERAGENCY SERVICE AGREEMENTS APPROPRIATION

Request

In FY 2001, $775,700 and 12 FTE Positions were appropriated in a General Appropriation Act footnote from the Interagency Service Agreements (ISA) Fund for new or expanded Interagency Agreements. The footnote requires that the Attorney General report to JLBC when a new or expanded ISA will require expenditures from the additional appropriation. The Attorney General reports that additional ISAs have been established that will require expenditures totaling $323,500 from the additional $775,700 appropriated from the ISA Fund.

Recommendation

This report is for information only and no Committee action is required. The Attorney General reports that $323,500 and 5.75 FTE Positions will be used for new and expanded ISAs.

Analysis

Following is a list of the agencies, amounts and FTE Positions associated with new or expanded ISAs that will require expenditure from this additional appropriation:

Agency	Amount	FTE Position	Reason
Arizona State Lottery Commission	$ 25,100	0	Increased workload
Board of Medical Examiners	119,800	1.75	New ISA
Citizens Clean Elections Commission	51,800	1	Increased workload
Department of Economic Security - Rehabilitation Services Administration	5,000	0	New ISA
State Board of Accountancy	121,800	3	Increased workload
TOTAL	$323,500	5.75	

This report complies with the requirement of the General Appropriation Act footnote.

RS:GG:ck

STATE OF ARIZONA

Joint Legislative Budget Committee

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CHRISTINE WEASON

DATE: October 12, 2000

TO: Senator Randall Gnant, Chairman
Members, Joint Legislative Budget Committee

THRU: Richard Stavneak, Director

FROM: Bob Hull, Principal Research/Fiscal Analyst

SUBJECT: ARIZONA DEPARTMENT OF TRANSPORTATION - REPORTS ON PORTS OF ENTRY

Request

The Arizona Department of Transportation (ADOT) is presenting 2 reports on Arizona ports of entry, which resulted from a Strategic Program Area Review (SPAR) of the ports. The reports are required by Laws 2000, Chapter 343, and were due by September 1, 2000.

Recommendation

This report is for information only and no Committee action is required. The ports of entry SPAR has focused the attention and increased the awareness of ADOT, the Department of Public Safety (DPS), and the Arizona Department of Agriculture (ADA) on their inter-relationships at the ports. ADOT's first report indicates that the 3 agencies have conducted meetings, are cooperating to improve issues and employee cross-training, and will continue to meet at least every 3 months to discuss operational issues and methods improvements.

The second report, ADOT's 5-Year Port Plan for FY 2001-2005 provides some information on individual ports and on the program. However, ADOT still needs to establish baseline data in FY 2001 for 3 of the 4 performance measures specified in Laws 2000, Chapter 343 (the number of vehicles weighed, the number of overweight vehicles, and the operating budget expenditures for both fixed ports and mobile units).

The JLBC Staff will continue to evaluate ADOT's progress regarding this program, as updated performance measures and new data become available. ADOT's third report required by Chapter 343, on how they have improved their collection, analysis and use of the specified performance measures is due by September 1, 2001.

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Analysis

A SPAR of Arizona's non-international ports of entry was conducted during the summer of 1999 by the staffs of the Joint Legislative Budget Committee and the Office of Strategic Planning and Budgeting. The SPAR found that ADOT, DPS and ADA each has its own areas of primary responsibility, as well as having certain overlapping secondary responsibilities and common concerns regarding port operations. ADOT's Motor Vehicle Division concentrates on truck size and weight enforcement, DPS is the lead agency for truck safety, and ADA handles agriculture and horticulture inspections. The SPAR found that is useful for the 3 agencies to share ADOT's port facilities. However, the cooperation level among the 3 agencies has varied, and there were definite opportunities for increased cooperation. As a result, Laws 2000, Chapter 343, requires ADOT with cooperation from DPS and ADA to report their progress in improving inter-agency cooperation, cross-training, and the use of interagency agreements to foster effective and efficient cooperation by September 1, 2000. ADOT's report follows this memo.

In summary, ADOT reports that the 3 agencies have met several times, giving each agency a clearer understanding of the others' needs. The 3 agencies have agreed to continue meeting at least every 3 months to discuss operational issues and methods improvements. ADOT reports that the agencies are undertaking several cooperative actions, including the following: DPS and ADOT are improving their scheduling and coordinating of joint mobile details for truck size, weight and safety enforcement; DPS has agreed to train and certify 10 additional ADOT personnel to perform truck safety inspections, beyond the 26 already trained; ADOT has invited the other 2 agencies to share the space at any of its ports; ADA and ADOT will review each other's performance measures to help coordinate their efforts; and, the 3 agencies have agreed to try to address ADA's dissatisfaction with the electronic screening (PrePass) system which allows the trucks of participating firms to bypass selected ports. All 3 agencies expressed a desire for more staffing.

Employee cross-training has included the following: ADOT provided hazardous materials awareness training for the 3 agencies and various other law enforcement agencies to improve port safety; ADA has agreed to present an infestation recognition training course to ADOT employees; and, ADOT will train ADA employees to enhance size, weight and safety screening. Drafts of a memorandum of understanding between ADOT and DPS, and of an intergovernmental agreement between ADOT and ADA which detail various points of cooperation between the agencies are under legal review. For a practical demonstration of employee cross-training, ADOT cites employee response to 2 hazardous materials incidents, ADOT employees screening trucks for agricultural loads at ports not staffed by ADA, and ADA assisting ADOT in screening trucks during busy times.

The SPAR also found that ADOT's 5-Year Master Port Plan was last updated in 1989. Chapter 343, requires ADOT to submit an updated 5-Year Master Port Plan by September 1, 2000, including data on the number of vehicles weighed, the number of overweight vehicles, the revenue generated and the operating budget expenditures for its fixed ports and its mobile units. In order to help improve the future evaluation of the direction of the program, including the best use and mix of fixed scales, mobile scales and newer technologies, Chapter 343, requires ADOT to make a third report. ADOT is to report how they have improved their collection, analysis and use of the preceding data by September 1, 2001.

ADOT's new Ports of Entry 5-Year Plan, Fiscal Years 2001-2005, dated August 2000, provides some information on individual ports and on the program, including the amount of revenue generated in FY 2000 at each port. However, ADOT still needs to establish baseline data in FY 2001 for 3 of

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the 4 performance measures specified in Chapter 343 (the number of vehicles weighed, the number of overweight vehicles, and the operating budget expenditures for both fixed ports and mobile units). We have asked ADOT to clarify and reconcile the number of FTE Positions which they reported for the ports. A copy of the new 5-Year Plan is available on request from ADOT. The JLBC Staff will use the new 5-Year Plan in conjunction with other information, and the third report that is due by September 1, 2001, to help evaluate future ADOT operating and capital budget requests for the ports.

In summary, the ports of entry SPAR has focused the attention and increased the awareness of ADOT, DPS, and ADA on their inter-relationships at the ports. ADOT's first report indicates that the 3 agencies have conducted meetings, are cooperating to improve issues and employee cross-training, and will continue to meet at least every 3 months to discuss operational issues and methods improvements. The second report, ADOT's 5-Year Port Plan for FY 2001-2005 provides some information on individual ports and on the program. However, ADOT still needs to establish baseline data in FY 2001 for 3 of the 4 performance measures specified in Chapter 343 (the number of vehicles weighed, the number of overweight vehicles, and the operating budget expenditures for both fixed ports and mobile units).

The JLBC Staff will continue to evaluate ADOT's progress regarding this program, as updated performance measures and new data become available. ADOT's third report required by Chapter 343, on how they have improved their collection, analysis and use of the specified performance measures is due by September 1, 2001.

RS:BH:jb

DATE: October 12, 2000

TO: Senator Randall Gnant, Chairman
Members, Joint Legislative Budget Committee

THRU: Richard Stavneak, Director

FROM: Gretchen Logan, Fiscal Analyst

SUBJECT: AHCCCS – REPORT ON CAPITATION RATES

Request

A footnote in the General Appropriation Act requires the Arizona Health Care Cost Containment System (AHCCCS) to report to the Joint Legislative Budget Committee (JLBC) before making capitation rate changes to current fee-for-service programs that may have a budgetary impact in FY 2000 or FY 2001. The capitation rate changes AHCCCS is currently implementing are not related to the fee-for-service program, so JLBC review is not required. The Department of Health Services and the Department of Economic Security budgets have similar footnotes that require JLBC review before implementing new capitation rates. These three footnotes were added at the same time to inform the JLBC when changes are made to capitation rates that may result in a future budget impact. Given this legislative concern, AHCCCS has agreed to present its current changes to the Committee for information, although review is not required.

Recommendation

This item is for information only and no Committee action is required. Beginning October 1, 2000, the AHCCCS capitation rates will increase on average by 7.3%. This contributes to the growth in the estimated FY 2001 supplemental requirement, which has increased from $50.1 million to the current estimate of $66.9 million.

Analysis

Since Title XIX is a federal entitlement program and states are required to provide reimbursement rates that are "actuarially sound," capitation rates are not set by the Legislature. AHCCCS contracts with an actuarial firm, which uses claims, expenditure, and encounter data to determine the actual cost of services and thereby, recommends increases or decreases in the capitation rates. New capitation rates generally become effective on October 1 because that is the beginning of both the federal fiscal year (FFY) and the contract year with the health plans.

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AHCCCS has two sets of capitation rates for Acute Care. The first set of rates covers the period prior to enrollment in a health plan. This is called "prior period coverage" (PPC) and includes some amount of retroactive coverage depending upon eligibility. The second set of rates, referred to as "regular" capitation, take effect after enrollment in the health plan. The following table shows the rate changes for both PPC and regular capitation. The rates shown reflect a weighted average of the rates paid per member per month to the health plans.

Monthly Capitation Rates

	Prior to Enrollment in Health Plan			Regular		
Population	**Previous Rate**	**New Rate**	**%**	**Previous Rate**	**New Rate**	**%**
Age <1	$997.26	No Change	--	$323.01	$330.93	2.5
Age 1-13	34.78	No Change	--	66.98	74.25	10.9
Age 14-44 (Female only)	139.36	No Change	--	113.80	117.82	3.5
Age 14-44 (Male only)	77.46	No Change	--	91.82	95.98	4.5
Age 45+	198.68	No Change	--	218.88	237.42	8.5
SSI with Medicare	14.51	No Change	--	150.48	171.54	14.0
SSI without Medicare	57.27	No Change	--	323.80	341.24	5.4
State-only:						
MN/MI	$14,584.62	$19,536.16	34.0%	$481.19	$576.53	19.8%
Average Rate Increase			34.0%			7.3%

The average regular capitation rate increase across all populations equates to 7.3%. As shown in the table above, the largest increases are in the Medically Needy/Medically Indigent (MN/MI) population, which is 100% state funded. This population is also the most costly since a large proportion of this population "spend down" into the program. This means that the person's expenditures for health care costs are such that when they are compared against the individual's annual salary, the person would have annual income of $3,192 or less, which equates to 38% of the Federal Poverty Level. Persons who meet this threshold are typically very ill and very expensive.

While the MN/MI population has declined significantly over the past three or four years, the cost per person has increased and health plans have consistently sustained losses on the MN/MI population. As a result, AHCCCS is implementing a 34% increase in the PPC rate and a 19.8% increase in the regular capitation rate effective October 1, 2000. The rate increases for the other populations will result in cost increases of a much smaller magnitude.

In the past, increases in capitation rates have not required additional funding due to surpluses created by the declining caseloads. Since approximately November 1999, however, enrollment has not been declining as in the past. The JLBC Staff reported a FY 2001 supplemental requirement of $50.1 million in the 2000 legislative session. This deficit was attributed to an increase in caseloads and inflation. At that time, it was assumed that MN/MI prior period and regular capitation rates would increase by 10%. However, the actual increases as reported in the table above, are 34% for prior period and 19.8% for regular capitation. This unanticipated inflation for the MN/MI population is a key factor behind the increased FY 2001 AHCCCS supplemental requirement, which the JLBC Staff is currently estimating to be approximately $66.9 million.

RS/GL:ck